2013
Annual Report

魏 橋 紡 織 股 份 有 限 公 司

Weiqiao Textile Company Limited

(Stock Code : 2698)

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL FIGURES

Results

	For the year ended 31 December (RMB'000)				
	2009	2010	2011	2012	**2013**
Revenue	14,333,088	17,887,429	15,232,034	15,247,956	**13,880,642**
Gross profit	1,243,557	2,879,606	278,489	1,037,207	**1,205,630**
Gross profit margin (%)	8.7	16.1	1.8	6.8	**8.7**
Profit before income tax	1,199,400	2,257,304	254,555	663,741	**921,775**
Net profit attributable to shareholders of the parent	892,446	1,627,376	245,584	481,880	**628,807**
Net profit margin (%)	6.2	9.1	1.6	3.2	**4.5**
Basic earnings per share (RMB)	0.75	1.36	0.21	0.40	**0.53**

Assets and liabilities

	As at 31 December (RMB'000)				
	2009	2010	2011	2012	**2013**
Total assets	26,754,785	28,389,854	29,356,819	28,373,669	**30,310,462**
Equity	14,074,124	15,422,610	15,238,312	15,643,874	**16,101,848**
Total liabilities	12,586,695	12,865,444	14,118,507	12,729,795	**14,208,614**
Return on equity* (%)	6.5	11.0	1.6	3.1	**4.0**
Current ratio (times)	1.2	1.5	1.4	1.8	**2.4**
Accounts receivable turnover (days)	22	11	8	13	**14**
Inventory turnover (days)	78	143	245	149	**185**
Accounts payable turnover (days)	43	33	84	50	**59**

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 DIRECTOR

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
17M 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 2013

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

INVESTOR RELATIONS

Mr. Zhang Jinglei
Tel: (86 543) 416 2222
Fax: (86 543) 416 2000
Email: zhangjinglei@wqfz.com

IR & PR CONSULTANT

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

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date
21 March 2014

DATE OF ANNUAL GENERAL MEETING

27 May 2014

DISTRIBUTION DATE OF FINAL DIVIDEND

27 June 2014

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 audited consolidated results of the Company together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2013 (the "Year" or "Year under Review").

2013 marked another critical period in China's textile industry as it continued its comprehensive transformation and began implementing the reforms instituted in China's 12th Five-Year Plan for the industry. While China's textile industry continues to face a number of immediate challenges, all major economic indicators continued to grow at a steady pace.

Exports of China's textile products and apparel improved, as the global economy lowly continued to gain momentum. According to statistics released by the General Administration of Customs of the People's Republic of China, China's total exports of textile products and apparel increased by approximately 11.4% year-on-year to approximately US$284.1 billion, representing an increasing growth rate of approximately 8.6 percentage points. This indicates that global demand for textile products and apparel gradually picked up in 2013.

CHAIRMAN'S STATEMENT

During the Year Under Review, the growth rate of domestic consumption continued to slowdown, affected by slower domestic economic growth. According to statistics released by the National Bureau of Statistics of China, retail sales of apparel, footwear, headwear and knitwear from January to December 2013 by enterprises above designated size in China with annual revenue of over RMB20 million amounted to approximately RMB1,141.4 billion, representing a year-on-year increase of approximately 11.6%; the total retail sales of consumer goods amounted to approximately RMB23,438 billion, representing a year-on-year increase of approximately 13.1%. The growth rate of the retail sales of apparel, footwear, headwear and knitwear was lower than that of the total retail sales of consumer goods, highlighting the slower path to recovery the PRC's textile industry is facing.

In terms of raw materials, domestic cotton prices remained relatively stable in 2012 and 2013, following strong fluctuations in 2010 and 2011. This was mainly because cotton prices in the domestic market had been greatly affected by the auction price of the government's cotton reserve since the implementation of the temporary reserve policy. During the Year, the gap between domestic and overseas cotton prices remained steady at approximately RMB4,000 per ton. The relatively large gap in cotton prices has put the business operations of China's textile companies under continued pressure.

CHAIRMAN'S STATEMENT

During the Year, the Group recorded revenue of approximately RMB13,881 million, representing a decrease of approximately 9.0% compared with 2012. Net profit attributable to owners of the parent was approximately RMB629 million, representing an increase of approximately 30.5% as compared with that of 2012. Earnings per share were RMB0.53. The Board recommended the payment of a final dividend of RMB0.1658 per share (including tax) for the year ended 31 December 2013.

Looking ahead, China's textile industry still faces a variety of uncertainties as the domestic and external situation remains relatively complex. In the short term, the industry's development will remain hampered by the unresolved disparity between domestic and overseas prices as well as the lack of market-oriented pricing mechanism in raw materials. While all the production costs in China will continue to increase, the Chinese textile enterprises will also face challenges to their international competitiveness. As global economic prospects are still uncertain, market fluctuations remain a risk. However, for China's textile industry, domestic and international market environments in 2014 are expected to record stable growth. In particular, fundamentals of the domestic market remain

CHAIRMAN'S STATEMENT

strong. With a steady increase in income of urban and rural residents, coupled with continued advance of new urbanization, domestic consumption in clothing is expected to grow at a steady pace. In overseas markets, major developed countries in Europe and the United States have shown signs of recovery. As consumption gradually benefits from the macroeconomic progress, the global market is expected to maintain stable growth. A narrower cotton price gap, formulated in a more market-oriented pricing mechanism, will enhance the competitiveness of Chinese textile companies, which is expected to be triggered off by a trial implementation of the direct subsidy policy in Xinjiang in 2014.

Faced with the new environment, Weiqiao Textile is fully prepared to meet various challenges that a new environment brings. On 19 November 2013, the general office of Shandong Provincial Government issued the "Notice on Printing and Distributing Instruction for the Transformation and Upgrading of Six Traditional Industries of Shandong Province" (The Administration office of Shandong Province [2013] No. 37), explicitly stating its support for Weiqiao Textile to solidify its leading position in the PRC textile industry. We will continue to further lower production costs through technology upgrades and innovations; enhance our pricing capability by leveraging our stable supply of high-quality products and the capability to accept orders based on advantages of scale; and further stabilize the consolidated gross margin of our products through strengthening management in inventory and the use of import quota so as to effectively control risks. In addition, solid financial strengths and the stable financial management system will more effectively help the Group make thorough preparations for price fluctuations in cotton and other raw materials. For the aspect of markets, the Group will remain committed to our strategy of focusing on both high-end products and emerging markets, and to proactively fulfilling social responsibilities, including energy-saving and environmental protection. We believe our extensive customer base, cost structure, technology and scale will benefit Weiqiao Textile to better grasp market opportunities, mitigate the impacts of the market's volatility and maintain the Group's leading position in the global cotton textile industry.

On behalf of the management of Weiqiao Textile, I would like to express my gratitude to our shareholders for their constant support to the Company. It is your trust and support, together with the efforts of our staff that enable the Group to face challenges with confidence. I would like to take this opportunity to express my heartfelt 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.

Zhang Hongxia
Chairman

Hong Kong, People's Republic of China
21 March 2014


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25

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

China's textile industry achieved steady growth throughout 2013. Despite the effects of sluggish domestic demand, a weak recovery of exports, price gap between domestic and overseas cotton prices and rising production costs, the growth of China's textile industry remains resilient.

During the Year, the growth in domestic market remained stable but slowed down. According to the statistics released by the National Commercial Information Center of China, the retail sales of apparels by the major retail enterprises in 2013 grew by approximately 5.0% year-on-year, representing a decrease of approximately 7.3 percentage points in growth rate from that of 2012.

According to the statistics released by the General Administration of Customs of the PRC, exports of textile and apparel products showed signs of modest recovery during the Year. In 2013, China's export of textile products amounted to approximately US$107 billion, up by approximately 11.7% as compared with last year. The growth rate increased by approximately 10.5 percentage points from approximately 1.2% for the corresponding period of 2012. During the Year, the country's exports of textile and apparel products to the following countries and regions were summarized as follows:

– United States: approximately US$41.6 billion, representing an increase of approximately 7.0% from the corresponding period of last year, while the growth rate increased by approximately 3.7 percentage points.

– Japan: approximately US$27 billion, representing a decrease of approximately 1.0%.

– Hong Kong: approximately US$19.5 billion, representing an increase of approximately 20.0%, while the growth rate increased by approximately 14.2 percentage points.

– European Union: approximately US$51.7 billion, representing an increase of approximately 9.3%, while the growth rate increased by approximately 21.2 percentage points.

The export of Chinese textile and apparel products to emerging markets of ASEAN, the Middle East and Africa increased by approximately 28.3%, 12.2% and 6.0%, respectively.

With respect to raw materials, the Chinese government implemented policies that released the cotton reserves to the market, allowing domestic prices to remain relatively stable with limited fluctuations of the cotton price gap between domestic and overseas market. During the Year, the average price of cotton according to the Cotton A Index in China was approximately RMB20,163 per ton, up by approximately 0.6% compared to the corresponding period of last year, with the highest price reaching approximately RMB20,382 per ton and the lowest price of approximately RMB20,048 per ton. The average price of cotton according to the Cotlook A Index in the global market was approximately 90.43 US cents per pound, an increase of approximately 1.3% as compared with that of the corresponding period of last year, with the highest price reaching approximately 94.45 US cents per pound and the lowest price of approximately 84.58 US cents per pound.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year Under Review, China's textile industry faced a number of challenges throughout the year, mainly, a persistent gap between domestic and overseas cotton prices, rising labor costs and declining sales price of products. To adopt the new market conditions, the Company leveraged on its advantages in scale and research and development. The Company will continue to optimize the utilization of its advanced production facilities, accelerate the upgrade and refinement of its product portfolio as it gradually increases the proportion of middle and high-end products. By implementing a flexible sales strategy, the Group is actively expanding its market share. The Group achieved growth in profits by providing higher quality products with value-added services. The Group adopted a flexible approach to procuring raw materials in order to reduce production costs by making proper use of the timing and its import quotas.

For the year ended 31 December 2013, the Group had four production bases, all of which are located in Shandong Province of China, namely:

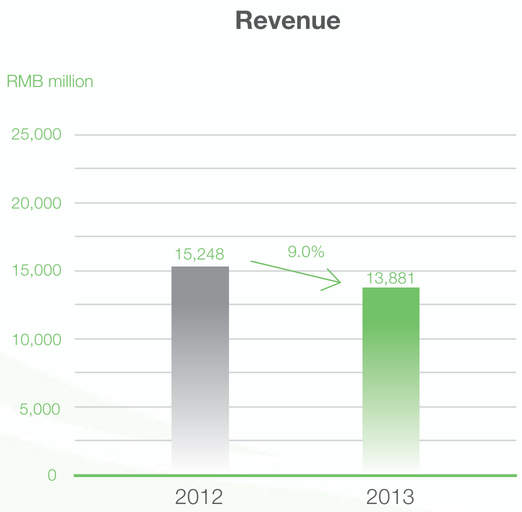
1. Weiqiao Production Base (currently has two production areas);

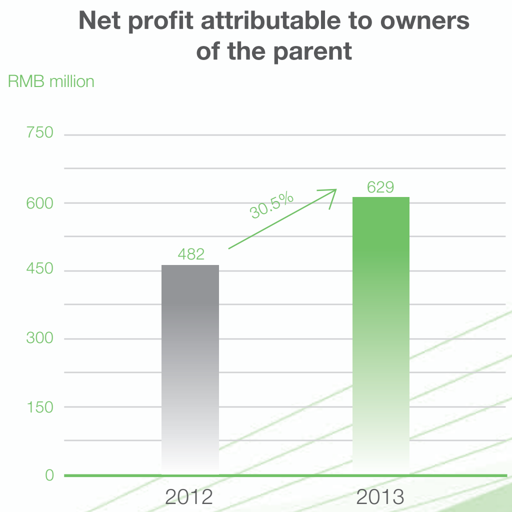
2. Binzhou Production Base (the First Production Area and the Second Production Area of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park"));

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).

For the years ended 31 December 2013 and 2012, the revenue of the Group and net profit attributable to owners of the parent were as follows:





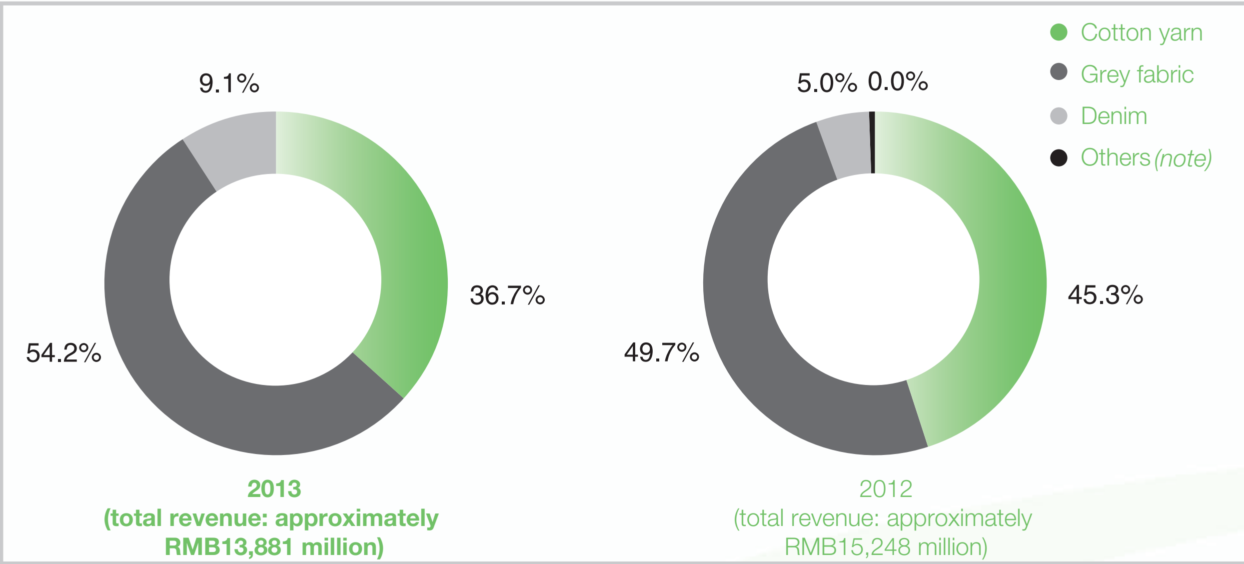
MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2013, the Group recorded revenue of approximately RMB13,881 million, representing a decrease of approximately 9.0% as compared with last year. Such decrease was mainly attributable to the decrease in sales volume of cotton yarn of the Group during the Year as compared with the corresponding period of last year.

For the year ended 31 December 2013, net profit attributable to owners of the parent amounted to approximately RMB629 million, representing an increase of approximately 30.5% over last year. The increase was mainly attributable to the improvement in gross profits due to the decline in unit cost of sales of the Group's products during the Year, the rise in profit generated from the sales of electricity as a result of reduced coal price and the reduced finance costs of the Group during the Year.

The charts below are the proportion of revenue by products for the years ended 31 December 2013 and 2012, respectively:

Proportion of revenue by product



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

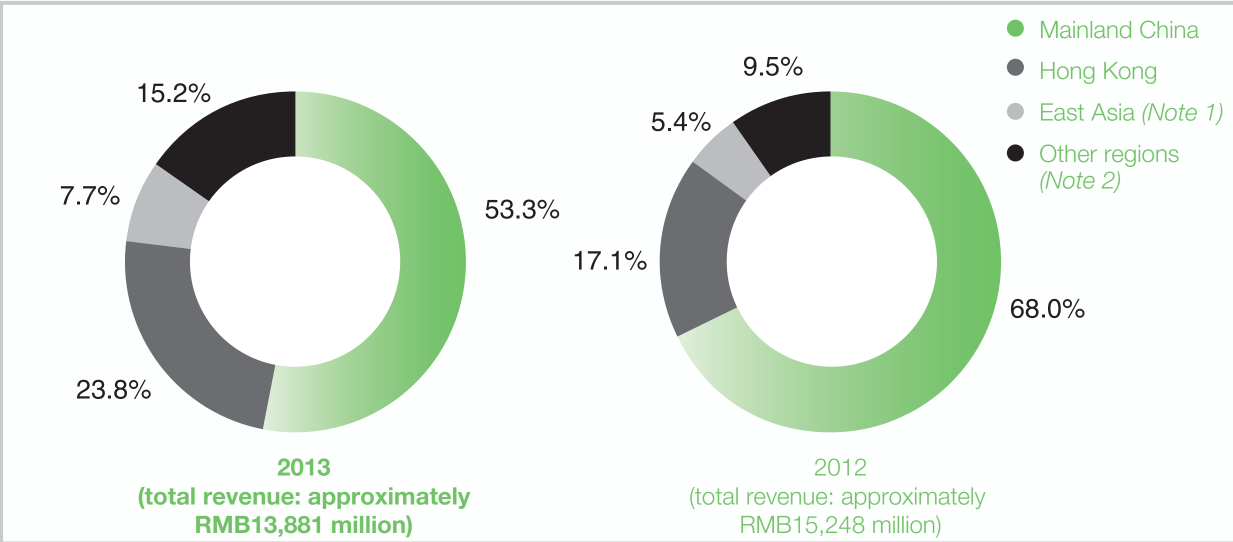
For the year ended 31 December 2013, the proportion of revenue contributed by the Group's cotton yarn decreased as compared with the corresponding period of last year. The decrease was mainly attributable to the drop in revenue from cotton yarn resulting from the decrease in sales volume of cotton yarn as compared with the corresponding period of last year. The decrease in sales volume of cotton yarn was mainly due to the Group's effort to enhance sales of cotton yarn to reduce part of the inventory during the corresponding period of last year. The increase in the proportion of revenue contributed by grey fabric and denim was mainly due to the market demand-oriented approach, the Group's aggressive efforts in product mix adjustment and the flexible sales strategy adopted by the Group, leading to an increase in sales volume of grey fabric and denim.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year, the Group's production volume of cotton yarn, grey fabric and denim were approximately 488,000 tonnes, 1,021 million meters and 73 million meters, respectively. The production volume of cotton yarn increased by approximately 8.4% as compared with the corresponding period of last year, mainly due to the increase in the production volume of self-use cotton yarn of the Group; while grey fabric and denim decreased by approximately 2.3% and 18.0% respectively as compared with the corresponding period of last year, mainly due to the increased proportion of high-count and high-density grey fabric and denim of the Group during the Year, resulting in the decrease of production volume in the corresponding unit production time.

The following charts show the breakdown of the Group's revenue in terms of geographical location for the years ended 31 December 2013 and 2012:

Proportion of revenue by geographical location



Note 1: East Asia includes Japan and South Korea.

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

For the year ended 31 December 2013, the proportion of the Group's revenue contributed from overseas markets to its total revenue was approximately 46.7%, representing an increase of approximately 14.7 percentage points as compared with the corresponding period of last year. This was mainly because the Group timely responded to the recovering global market demand by adjusting product mix to proactively develop overseas markets during the Year; as a result, export orders grew with a rise in revenue from overseas sales.

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 2013 and 2012:

	For the year ended 31 December					
	2013			2012		
Product	**Revenue**	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	**%**	*RMB'000*	*RMB'000*	*%*
Cotton yarn	**5,095,886**	**485,160**	**9.5**	6,902,721	585,622	8.5
Grey fabric	**7,528,629**	**552,499**	**7.3**	7,583,270	456,328	6.0
Denim	**1,256,127**	**167,971**	**13.4**	761,482	(4,755)	(0.6)
Others	**–**	**–**	**–**	483	12	2.5
Total	**13,880,642**	**1,205,630**	**8.7**	15,247,956	1,037,207	6.8

For the year ended 31 December 2013, the gross profit margin of the Group increased to approximately 8.7% from approximately 6.8% for the corresponding period of last year. This was mainly attributable to the improvement in gross profits due to the decline in unit cost of sales of the Group's products during the Year.

OTHER INCOME AND GAINS

For the year ended 31 December 2013, other income and gains of the Group were approximately RMB865 million, representing an increase of approximately 8.9% from approximately RMB794 million for the corresponding period of last year. Such increase was mainly due to the increase in the gains from the sales of electricity and steam.

For the year ended 31 December 2013, the Group's sales of electricity and steam amounted to approximately RMB2,264 million, representing a decrease of approximately 20.1% as compared with approximately RMB2,832 million for the corresponding period of last year with a gain of approximately RMB673 million, representing an increase of approximately 21.9% as compared to approximately RMB552 million for the corresponding period of last year. The decrease in sales of electricity and steam as compared with the corresponding period of last year was mainly attributable to the reduction of power generation due to the decrease in average installed capacity of the Group during the Year as compared with that of 2012 as a result of the disposal of Binzhou thermal power assets, and to the increase in self-consumed electricity of the Group during the Year due to the increase of cotton textile products and increase in the proportion of high-count and high-density cotton fabric which resulted in less power sold, thus, less sales amount. The increase in gain generated from sale of electricity and steam was mainly due to the decreased coal price during the Year that reduced the unit power generation cost.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

For the year ended 31 December 2013, the Group's selling and distribution expenses dropped by approximately 1.0% to approximately RMB204 million from approximately RMB206 million for the corresponding period of last year. Among those expenses, transportation costs decreased by approximately 17.3% to approximately RMB124 million from approximately RMB150 million in 2012, which was mainly due to the overall decreased fees for transportation resulting from comparatively lower unit price for export transportation while proportion of export sales volume of our products increased during the Year. Salary of the sales staff was approximately RMB29 million, which remained flat as compared with the corresponding period of last year. Sales commission was approximately RMB17 million, representing an increase of approximately 70.0% as compared with approximately RMB10 million for the corresponding period of last year, which was primarily due to an increase in revenue generated from export sales benefiting from the recovery in demand of international market, which resulted in an increase in the commission paid accordingly.

ADMINISTRATIVE EXPENSES

For the year ended 31 December 2013, the administrative expenses of the Group were approximately RMB284 million, representing an increase of approximately 12.7% from approximately RMB252 million for the corresponding period of last year. Such increase was primarily due to the Group's inclusion of the depreciation costs incurred by idle properties in the administrative expenses according to accounting standards and increase in salary of the administrative staff during the Year.

FINANCE COSTS

For the year ended 31 December 2013, finance costs of the Group were approximately RMB566 million, representing a decrease of approximately 10.0% as compared with approximately RMB629 million of last year, among which, the interest expenses amounted to approximately RMB555 million, representing a decrease of approximately 7.3% as compared with approximately RMB599 million for the corresponding period of last year, which was mainly attributable to the decrease in the Group's bank borrowings and the drop in the average borrowing rate. The exchange loss amounted to approximately RMB12 million, which was mainly due to the increase in the Group's revenue generated from export sales while the import purchases reduced. Affected by appreciation of Renminbi, an exchange loss of approximately RMB30 million was recorded for the corresponding period of last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, cash and cash equivalents of the Group were approximately RMB10,211 million, representing an increase of approximately 38.9% as compared with approximately RMB7,350 million as at 31 December 2012. It was mainly due to the issue of corporate bonds by the Group during the Year, which resulted in the 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 2013, the Group recorded a net cash inflow from operating activities of approximately RMB1,508 million, a net cash inflow from investing activities of approximately RMB187 million and a net cash inflow from financing activities of approximately RMB1,221 million. As at the end of the Period, the cash and cash equivalents increased by approximately RMB2,916 million. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs, and will continue to maintain a sound financial position.

For the year ended 31 December 2013, the inventory turnover days of the Group were 185 days, representing an increase of 36 days as compared with that of the corresponding period of last year. It was due to the increase in the Group's inventory of raw materials at the end of the Year. The average turnover days of the Group's receivables were 14 days, which remained stable as those for the corresponding period of last year.

For the year ended 31 December 2013, the Group had used financial instruments, specifically forward currency contract, to minimize its exposure to fluctuations of exchange rates. The contract was settled in May 2013.

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

For the year ended 31 December 2013, net profit attributable to owners of the parent was approximately RMB629 million, representing an increase of approximately 30.5% from approximately RMB482 million for the corresponding period of last year.

For the year ended 31 December 2013, earnings per share of the Company were RMB0.53.

CAPITAL STRUCTURE

The major objective of the Group's capital management is to ensure ongoing operations and maintain a satisfactory capital ratio in order to support its business and maximize shareholders' interests. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2013, the debts of the Group were mainly bank borrowings totaling approximately RMB7,455 million and corporate bonds amounting to approximately RMB2,972 million. The Group had cash and cash equivalents of approximately RMB10,211 million. The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by total equity) was approximately 1.3% (2012: approximately 11.0%).

The Group maintained a balanced portfolio of borrowings at fixed interest rates and floating rates to manage interest expenses. As at 31 December 2013, approximately 48.1% of the Group's bank borrowings were subject to fixed interest rates, while the remaining approximately 51.9% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds through financial instruments such as bank borrowings and corporate bonds. 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 2013, approximately 35.6% of the Group's borrowings will mature within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2013, the Group's bank borrowings were denominated in Renminbi and US dollars, of which bank borrowings in US dollars represented approximately 4.9% of the total bank borrowings, while cash and cash equivalents were mainly denominated in Renminbi and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 3.6% 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 2013, the Group had a total of approximately 84,000 employees, representing an increase of approximately 2,000 employees as compared with that of last year. Such increase in the number of staff was mainly due to the recruitment of new staff as talent reserve to meet the production requirement of the Group. Total staff costs amounted to approximately RMB2,642 million during the Year, representing approximately 19.0% of the revenue of the Group and an increase of approximately 3.8 percentage points over approximately 15.2% for the corresponding period of last year. 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 adopts a strict and 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. For the year ended 31 December 2013, approximately 46.7% of the Group's revenue and approximately 43.4% of the costs of purchase of cotton were denominated in US dollars. For the year ended 31 December 2013, the Group recorded exchange loss of approximately RMB12 million due to the appreciation 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 has sufficient foreign currency to meet its requirements.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any contingent liabilities.

TAXATION

For the year ended 31 December 2013, the tax of the Group increased from approximately RMB185 million in 2012 to approximately RMB295 million in 2013, representing an increase of approximately 59.5%. Such increase in tax was mainly attributable to the increase in the Group's profit before tax during the Year and the derecognition of deferred tax assets recognised in previous years of approximately RMB44 million for the deductible tax losses arising from the subsidiaries of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE BONDS

On 26 July 2013, the Company received the "Approval for the Public Issue of Corporate Bonds by Weiqiao Textile Company Limited (Zheng Jian Xu Ke [2013] No. 997)" (證監許可[2013] 997號《關於核准魏橋紡織股份有限公司公開發行公司債券的批覆》) from the China Securities Regulatory Commission approving the Company to issue its corporate bonds in the PRC with an aggregate nominal value of no more than RMB6 billion. On 23 October 2013, the Company issued corporate bonds with nominal value of RMB3 billion and nominal interest rate of 7.0%. For details, please refer to the announcements of the Company dated 26 July 2013 and 28 October 2013, respectively.

TRANSFER OF EQUITY INTERESTS

For commercial purpose, with the Approval of Wei Guo Zi Ban Fa [2013] No. 70 granted by State-owned Assets Management Office of Weihai Municipality, the Company entered into an equity transfer contract with Weihai Civil Aviation Industrial Company Limited ("Weihai Civil Aviation") on 13 December 2013, pursuant to which, Weihai Civil Aviation transferred its approximately 12.84% equity interests in Weihai Weiqiao to the Company by way of agreement for a consideration of RMB19 million paid in a lump sum. Upon completion of the equity transfer, Weihai Weiqiao became wholly-owned by the Company. The transactions fell within the category of connected transactions with persons at subsidiary level under Rule 14A.31(9) of the Listing Rules, and was therefore exempted from compliance with the reporting, announcement and independent shareholders' approval requirements.

OUTLOOK

Looking ahead, the global economy is still subject to uncertainties. Exit of quantitative easing monetary policy in the U.S. will lead to significant adjustments in the preferences and landscape of global capital. As China deepens the system reform, the mode of economic growth of China will transform. We are facing both new opportunities and new challenges. Meanwhile, China's textile industry is entering a stage of profound adjustments given the anticipated significant increases in the costs of labor, energy, and raw materials. Competition from countries in Southeast Asia will further squeeze the market share of China's textile enterprises in the international market. In view of this, Weiqiao Textile will continue to adjust its product mix according to the clients' needs to gradually increase the share of medium-and-high end products and enhance products' added value. The Company will try to reduce the production cost by increasing investment in technology R&D and reducing labor intensity (measured by workers needed per ten thousand spindles). While focusing on reducing the gearing ratio, financial costs and solvency risk, the Group will further enhance the ability to resist risks. Weiqiao Textile will continue to focus on environmental protection and sustainable development, solidify its position as an industry leader, and continue to commit to its social responsibility.

With its positive brand image, extensive operational experience and a strong balance sheet, the Group is confident that it will keep improving its core competitiveness, maintain and reinforce its position as the most preferred cotton textile provider in China and the top choice for global buyers.

DIRECTORS AND SUPERVISORS

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 42, 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 19 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) ("Weiqiao Cotton Spinning Factory") as the deputy head and head of the technical division as well as the director of the production technical department. She had also 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) (from 30 September 2003 to 25 December 2012). She is currently also a director of the Holding Company (from 14 April 1998), 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) (from 12 September 2002), the chairman and general manager of Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (from 12 March 2004), the chairman of Weihai Industrial Park (from 30 January 2004), the chairman and an executive director of Weiqiao Textile (Hong Kong) Trading Company Limited (魏橋紡織(香港)貿易有限公司) (from 12 October 2011) as well as a director and the chairman of Weihai Weiqiao (from 15 January 2014). 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 38, 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 University 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 13 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, a director and the chairman of Weihai Industrial Park from 21 February 2014 and a director of Holding Company since October 2012. 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 20 years of experience in the cotton textile industry. She previously worked at Weiqiao Cotton Spinning Factory as an accountant for about 5 years and as a finance manager of the Company. She is currently also a director of Holding Company (from October 2012). Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Zhang Jinglei

Mr. Zhang Jinglei, aged 37, 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 predecessor) 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) ("China Hongqiao") (stock code: 1378.HK).

DIRECTORS AND SUPERVISORS

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 67, 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 Weiqiao Cotton Spinning Factory, the general manager of the Holding Company, the Chairman of the Company, the chairman of Weilian Print, the chairman of Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd., the chairman of Shandong Weiqiao Tekuanfu 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. (山東宏橋新型材料有限公司) ("Shandong Hongqiao") (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) (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 (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 44, 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 16 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 59, 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 a member of the Chinese People's Political Consultative Committee of Yuexiu District, Guangzhou City, and 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 62, 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), an independent director of Huafu Top Dyed Melange Yarn Co., Ltd. (華孚色紡股份有限公司) (stock code: 002042.SZ), an 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 an 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 is currently the vice-chairman of CNTAC, the honorary chairman of China Cotton Textile Association, Chairman of China Filament Weaving Association. 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. Mr. Xu Wenying is going to resign as independent non-executive director of the Company at the 2013 annual general meeting, details of which are set out in the announcement of the Company dated 19 December 2013.

Wang Naixin

Mr. Wang Naixin, aged 62, 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 once served as the party secretary in Binzhou Teacher's College (濱州師範專科學校). 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 79, 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 Linyi 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 held on 29 May 2012. She does not currently hold any other position in the Group.

Wang Xiaoyun

Ms. Wang Xiaoyun, aged 49, 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 19 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 2013.

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 2013.

RESULTS AND DIVIDENDS

The Group's operating results for the year ended 31 December 2013 and the financial position of the Group and the Company as at 31 December 2013 are set out on pages 59 to 61 and pages 65 to 66 in the audited financial statements of this annual report.

The Directors recommended the payment of a final dividend of RMB0.1658 (inclusive of tax) per share (the "2013 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 13 June 2014 (Friday). The 2013 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, 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 6 June 2014).

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the years ended 31 December 2009, 2010 and 2011, and from the audited consolidated financial statements of the Group for the year ended 31 December 2012 and the year ended 31 December 2013 on pages 59 to 61 of this annual report is set out below:

Results

	For the year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	14,333,088	17,887,429	15,232,034	15,247,956	**13,880,642**
Cost of sales	(13,089,531)	(15,007,823)	(14,953,545)	14,210,749	**12,675,012**
Gross profit	1,243,557	2,879,606	278,489	1,037,207	**1,205,630**
Other income and gains	1,109,936	435,198	927,998	794,410	**865,350**
Selling and distribution expenses	(248,941)	(287,298)	(180,418)	(206,211)	**(204,199)**
Administrative expenses	(190,024)	(202,325)	(230,650)	(252,398)	**(283,578)**
Other expenses	(201,450)	(74,421)	(75,353)	(84,216)	**(99,265)**
Finance costs	(513,678)	(493,456)	(467,743)	(628,886)	**(566,439)**
Share of profit of an associate	–	–	2,232	3,835	**4,276**
Profit before tax	1,199,400	2,257,304	254,555	663,741	**921,775**
Tax	(309,106)	(621,939)	(15,230)	(184,752)	**(294,857)**
Profit and total comprehensive income for the year	890,294	1,635,365	239,325	478,989	**626,918**
Profit and total comprehensive income attributable to:					
Owners of the parent	892,446	1,627,376	245,584	481,880	**628,807**
Non-controlling interests	(2,152)	7,989	(6,259)	(2,891)	**(1,889)**
	890,294	1,635,365	239,325	478,989	**626,918**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	26,754,785	28,389,854	29,356,819	28,373,669	**30,310,642**
Total liabilities	12,586,695	12,865,444	14,118,507	12,729,795	**14,208,614**

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 2013 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 2013 are set out in Note 31 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 2013.

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 2013, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year ended 31 December 2013.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2013 are set out in Note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2013, in accordance with the PRC Company Law and the China Accounting Standards for Business Enterprises and other regulations, an amount of about RMB6,673 million stood to the credit of the Company's capital reserve account, and an amount of about RMB1,372 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 RMB6,293 million for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2013, sales to the Group's five largest customers accounted for approximately 13.5% of the Group's total sales for the year ended 31 December 2013, while sales to its largest customer accounted for approximately 3.8% of the Group's total sales for the year ended 31 December 2013.

During the year ended 31 December 2013, purchases from the Group's five largest suppliers accounted for approximately 55.6% of the Group's total purchases for the year ended 31 December 2013, while purchases from the Group's largest supplier accounted for approximately 39.5% of the Group's total purchases for the year ended 31 December 2013.

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 2013, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

As set out in the announcement of the Company dated 19 December 2013, Mr. Xu Wenying has submitted his resignation for resigning from the office as an independent non-executive director of the Company, with effect from the election of a new independent non-executive director at the 2013 annual general meeting.

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 2013
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 2012, no Directors and Supervisors of the Company were re-elected by ordinary resolutions.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for those transactions described in Note 38, headed "Related Party Transactions", to the financial statements and the section headed "Connected Transactions" below, no contract of significance, which was significant in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which any Directors or Supervisors had a material interest, whether directly or indirectly, subsisted during or at the end of 2013.

CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, so far as known to any Directors, Supervisors and chief executives of the Company, the following persons (other than a Director, Supervisor or chief executive of the Company) had, 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 members of the Group or had any option in respect of such capital:

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

Name of Shareholder	Number of Domestic Shares *(Note 1)*	Approximate percentage of total issued domestic share capital as at 31 December 2013 *(%)*	Approximate percentage of total issued share capital as at 31 December 2013 *(%)*
Holding Company	757,869,600	97.07	63.45
Shandong Weiqiao Investment Holdings Company Limited (the "Weiqiao Investment")	757,869,600 *(Note 2)*	97.07	63.45

Interests in the H Shares of the Company:

Name of Shareholder	Type of interest	Number of H Shares *(Note 3)*	Approximate percentage of total issued H share capital as at 31 December 2013 *(%)*	Approximate percentage of total issued share capital as at 31 December 2013 *(%)*
Brandes Investment Partners, L.P.	Investment manager	74,782,862 (Long position) *(Note 4)*	18.08	6.26
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 5)*	9.93	3.44
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	26,279,867 (Long position)	6.35	2.20
		11,252,418 (Short position)	2.72	0.94
	Custodian corporation/ approved lending agent	13,036,351 (Lending pool) *(Note 6)*	3.15	1.09

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 74,782,862 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
Note 5: These 41,073,100 H Shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.
Note 6: These 26,279,867 H Shares (long position) and 11,252,418 H 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 13,036,351 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.

Save as disclosed above, so far as known to the Directors, Supervisors and the chief executives of the Company, as at 31 December 2013, 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.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31 December 2013, the interests of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

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 2013** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2013** *(%)*
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 2013** *(%)*
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 2013, none of the Directors, Supervisors or chief executives of the Company and their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which 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 was entered into by the Company or subsisted during the year ended 31 December 2013.

CONNECTED TRANSACTIONS

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

Details of the connected transactions of the Group for the year ended 31 December 2013 are set out below. The Company has made relevant announcements strictly in accordance with the Listing Rules.

During the year ended 31 December 2013, 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. As the above seven 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.

REPORT OF THE DIRECTORS

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 Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 20 October 2008 with the term starting from 1 January 2009 and ending on 31 December 2011. Pursuant to the renewal mechanism of the agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 31 October 2011 with the term starting from 1 January 2012 and ending on 31 December 2014 (both dates inclusive). The prices of cotton yarn, grey fabric and denim supplied by the Group to the Parent Group were determined by reference to the prices at which comparative types of cotton yarn, grey fabric and denim were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of business in the PRC. Further details of the above non-exempt continuing connected transactions are set out in the Prospectus and the Company's announcements and circulars dated 28 December 2006, 15 January 2007, 20 October 2008, 31 October 2008, 31 October 2011 and 11 November 2011 respectively.

LEASE OF LAND USE RIGHTS BY HOLDING COMPANY TO THE COMPANY

The Company and Holding Company entered into relevant leasing agreements pursuant to which, Holding Company agreed to lease to the Company 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) A land use right lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, was entered into with an annual rental of RMB888,700 for the land relating to the Weiqiao Second Production Area.

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

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

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

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

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

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

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

ESTABLISHMENT OF SHANDONG WEIQIAO CHUANGYE FINANCE COMPANY LIMITED

On 17 March 2005, the Company entered into a promoters’ agreement with Binzhou Industrial Park, Weihai Weiqiao, Holding Company, 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 parties to the supply of excess electricity agreement have agreed to renew the transaction, and, on 4 November 2010, the Company entered into a supply of excess electricity agreement with Holding Company for a period of three years commencing on 1 January 2011 and ending on 31 December 2013 (the “Old Supply of Excess Electricity Agreement”), pursuant to which the Group will supply excess electricity to Holding Company. Pursuant to the renewal mechanism of the agreement, the Company and Holding Company entered into a supply of excess electricity agreement on 1 November 2013 for a term commencing on 1 January 2014 and ending on 31 December 2016 (both dates inclusive) (the “Supply of Excess Electricity Agreement”). 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.

Further details of the Non-Exempt Connected Transactions are set out in the Prospectus and the Company's announcements dated 13 August 2005, 14 January 2008, 20 October 2008, 4 November 2010 and 1 November 2013, respectively.

FIGURES FOR THE YEAR ENDED 31 DECEMBER 2013

Below is a table setting out the aggregate value for each of the Non-Exempt Connected Transactions for the year ended 31 December 2013:

Transaction nature			Aggregate value for the year ended 31 December 2013 (RMB'000)
1.	Supply of cotton yarn, cotton fabric and denim		
	(a)	by the Group to the Parent Group	885,887
	(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		11,458
4.	Supply of excess electricity by the Company to Holding Company		1,872,240

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.

REPORT OF THE DIRECTORS

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.

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.2.1, the Company has been in compliance with all the mandatory code provisions for the year ended 31 December 2013.

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 21 March 2014 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 2013. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the annual general meeting of 2013.

The Company has not changed the auditors for the eleven years ended 31 December 2013.

On Behalf of the Board of Directors

Zhang Hongxia
Chairman

Shandong, the PRC
21 March 2014

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2013, the Supervisory Committee of the Company 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 2013 are reported as follows:

1. Work of the Supervisory Committee

In 2013, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 15 March 2013, the 2nd 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 Working Report of the Supervisory Committee for 2012", "The Audited Financial Report for the Year Ended 31 December 2012", "The Profit Distribution Proposal for 2012" and "The Financial Report on the Final Account for 2012" were reviewed and approved.

2. On 23 August 2013, the 3rd 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 2013 issued by Ernst & Young was discussed and approved.

2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2013

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 2013, 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 2013 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 2014, the Supervisory Committee will continue to monitor and facilitate the improvement of the Company's governance structure in accordance with relevant provisions of the Articles of Association, put more emphasis on the coordination of the power structure, decision-making body and implementation body of the Company, concern for the relationships among shareholders and the management, pay attention to the progress and problems in the acts, performance and results of the management at all levels, and perform its duties diligently to protect the legitimate interests of the Company and shareholders.

By Order of the Supervisory Committee

Lu Tianfu
Chairman of the Supervisory Committee

Shandong, the PRC
21 March 2014

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 2013 to 31 December 2013, the Company has complied with the code provisions of the CG Code.

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 contained in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Having made specific enquiry of all Directors, the Directors have confirmed that for the year ended 31 December 2013, 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 2013, 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 of the Company is accountable to the general meeting, and is responsible for convening general meetings; implementing resolutions of the general meetings; formulating operating plans and investment plans of the Company; formulating annual financial budgets, final accounts of the Company; formulating profit distribution plans 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 operations and administrative matters not required to be decided by the general meeting under the Articles of Association; formulating major acquisition or disposal plans of the Company and other duties as provided by the Articles of Association.

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

CORPORATE GOVERNANCE REPORT

The general manager of the Company is accountable to the Board, and is responsible for taking lead in the management of the Company's production operations, organising the implementation of the resolutions of the Board; organising the implementation of the Company's annual operation plans and investment plans; formulating the deployment plans for the Company's internal management bodies; formulating the Company's basic management system; formulating the Company's basic rules and regulations; proposing for the appointment or removal of the Company's deputy 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 2013	Attendance of General Meetings held in 2013
Ms. Zhang Hongxia	4/4	1/2
Ms. Zhang Yanhong	4/4	2/2
Ms. Zhao Suwen	4/4	2/2
Mr. Zhang Jinglei	4/4	2/2
Mr. Zhang Shiping	3/4	1/2
Ms. Zhao Suhua	4/4	2/2
Mr. Chan Wing Yau, George	4/4	2/2
Mr. Xu Wenying	4/4	2/2
Mr. Wang Naixin	4/4	2/2

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 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 roles and responsibilities. Development and training of Directors is an ongoing process so that they can perform their duties appropriately. All Directors are encouraged to attend relevant training courses at the Company's expense. For the period from January 2013 to December 2013, all the Directors have been required to provide their training records to the Company, which were kept by the Company Secretary. All directors of the Company, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Zhang Jinglei, Mr. Zhang Shiping, Ms. Zhao Suhua, Mr. Wang Naixin, Mr. Xu Wenying and Mr. Chan Wing Yau, George, and the Company Secretary Mr. Zhang Jinglei have participated in relevant trainings and continuous study in relation to corporate governance and company management, so as to enhance their professional knowledge and skills.

CORPORATE GOVERNANCE REPORT

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2013, the Board conducted evaluations of its performance.

SUBORDINATE COMMITTEES OF THE BOARD

- Audit Committee
- Remuneration Committee
- Nomination Committee

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

A. AUDIT COMMITTEE

The Audit Committee was established on 9 January 2003. 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 15 March 2013 after due consideration by members of the Audit Committee:

1. to consider and approve the Report of the Directors and Report of the International Auditors of the Company for 2012;

2. to consider and approve the consolidated audited financial report of the Company for the year ended 31 December 2012;

3. to consider and approve the profit distribution plan and financial report on the final account of the Company for 2012;

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 2013 and Ernst & Young as the Company's international auditor for the year ended 31 December 2013;

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 of the Company for 2012.

CORPORATE GOVERNANCE REPORT

On 23 August 2013, 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 as of 30 June 2013 (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 statements for the six months ended 30 June 2013 were the appropriate accounting policies;

(3) Regarding the portion in the financial statements for the six months ended 30 June 2013 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 2013 have fully disclosed all the relevant issues, and such disclosure has accurately and fairly reflected the nature of the transactions without any misleading contents;

(5) The Audit Committee has reviewed the disclosure materials of extraordinary items for the six months ended 30 June 2013, 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 2013, including the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such materials have accurately and fairly reflected the performance and financial position of the Group and are in line with the disclosure in the financial statements for the six months ended 30 June 2013 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 2013;

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 within the Company, and reviewing and monitoring the effectiveness of the internal audit function;

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

(11) reviewing the 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 2013:

Committee Members	Attendance of Audit Committee Meetings held in the year ended 31 December 2013
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 systems of the Company, the management of the Company 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 2013.

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 2013
Mr. Wang Naixin	1/1
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 2013.

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 2013
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 and succession planning for directors, in particular the Chairman and the chief executive officer.

PROPOSED GRANT OF A GENERAL MANDATE AT THE ANNUAL GENERAL MEETING 2013

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 2013 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 7 in the Notice of Annual General Meeting 2013 of the Company.

EXTERNAL AUDITORS

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

For the year ended 31 December 2013, the external auditors Ernst & Young and Ernst & Young Hua Ming LLP have provided the Group with the following services:

	2013
	RMB'000
Interim review service	1,600
Annual audit service	4,450
Other non-auditing services	250

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the internal control system of the Company. 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 control functions. The Board confirmed that the internal control system of the Group is effective.

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary of the Company, Mr. Zhang Jinglei. The Company Secretary of the Company reports to the Chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with Shareholders and management. As of 31 December 2013, the Company Secretary of the Company undertook over 15 hours of professional training to update his skills and knowledge.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2013.

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

CORPORATE GOVERNANCE REPORT

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 Stock Exchange. The Company also communicates and discloses its latest business development plans 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

22/F CITIC Tower
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 59 to 140, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 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 2013, 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

21 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	**13,880,642**	15,247,956
Cost of sales		**(12,675,012)**	(14,210,749)
Gross profit		**1,205,630**	1,037,207
Other income and gains	5	**865,350**	794,410
Selling and distribution expenses		**(204,199)**	(206,211)
Administrative expenses		**(283,578)**	(252,398)
Other expenses		**(99,265)**	(84,216)
Finance costs	9	**(566,439)**	(628,886)
Share of profit of an associate	19	**4,276**	3,835
PROFIT BEFORE TAX	6	**921,775**	663,741
Income tax expense	10	**(294,857)**	(184,752)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**626,918**	478,989
Attributable to:			
Owners of the parent	11	**628,807**	481,880
Non-controlling interests		**(1,889)**	(2,891)
		626,918	478,989
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	13	**RMB0.53**	RMB0.40

During the years ended 31 December 2013 and 31 December 2012, 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 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**12,330,360**	13,662,949
Prepaid land lease payments	16	**181,220**	185,791
Other intangible assets	17	**950**	1,109
Investment in an associate	19	**74,014**	51,067
Deferred tax assets	30	**212,542**	263,044
Total non-current assets		**12,799,086**	14,163,960
CURRENT ASSETS			
Inventories	20	**6,439,476**	5,799,515
Trade receivables	21	**547,228**	548,475
Prepayments, deposits and other receivables	22	**155,362**	119,249
Due from the immediate holding company	23	**12,203**	8,312
Pledged time deposits	24	**141,963**	243,598
Non-pledged time deposits with original maturity over three months when acquired	24	**–**	120,332
Cash and cash equivalents	24	**10,210,689**	7,349,732
		17,506,921	14,189,213
Non-current assets classified as held for sale	14	**4,455**	20,496
Total current assets		**17,511,376**	14,209,709
CURRENT LIABILITIES			
Trade payables	25	**2,049,803**	1,935,893
Due to other related parties	23	**5,686**	5,670
Other payables and accruals	26	**944,931**	1,033,245
Derivative financial instrument	27	**–**	3,236
Interest-bearing bank and other borrowings	28	**3,708,361**	4,460,927
Tax payable		**460,337**	357,085
Deferred income	29	**40,267**	41,538
Total current liabilities		**7,209,385**	7,837,594
NET CURRENT ASSETS		**10,301,991**	6,372,115
TOTAL ASSETS LESS CURRENT LIABILITIES		**23,101,077**	20,536,075

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	6,718,071	4,605,450
Deferred income	29	277,051	282,366
Deferred tax liabilities	30	4,107	4,385
Total non-current liabilities		6,999,229	4,892,201
Net assets		16,101,848	15,643,874
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	1,194,389	1,194,389
Reserves	32(a)	14,635,294	14,213,252
Proposed final dividend	12(b)	198,030	148,821
		16,027,713	15,556,462
Non-controlling interests		74,135	87,412
Total equity		16,101,848	15,643,874

Zhang Hong Xia
Executive Director

Zhao Su Wen
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	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 33)*	–	–	–	–	–	–	(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

	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 2013	1,194,389	6,673,380	1,363,444	6,176,428	148,821	15,556,462	87,412	15,643,874
Final 2012 dividend declared	–	–	–	–	(148,821)	(148,821)	–	(148,821)
Total comprehensive income for the year	–	–	–	628,807	–	628,807	(1,889)	626,918
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	(1,123)	(1,123)
Acquisition of non-controlling interests	–	(8,735)	–	–	–	(8,735)	(10,265)	(19,000)
Proposed final 2013 dividend *(note 12(b))*	–	–	–	(198,030)	198,030	–	–	–
Transfer from retained profits	–	–	63,247	(63,247)	–	–	–	–
At 31 December 2013	1,194,389	6,664,645*	1,426,691*	6,543,958*	198,030	16,027,713	74,135	16,101,848

* These reserve accounts comprise the consolidated reserves of RMB14,635,294,000 (2012: RMB14,213,252,000) in the consolidated statement of financial position as at 31 December 2013.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**921,775**	663,741
Adjustments for:			
Finance costs	9	**566,439**	628,886
Share of profit of an associate	19	**(4,276)**	(3,835)
Bank interest income	5	**(29,721)**	(20,549)
Interest income from available-for-sale financial investments	5	**(17,705)**	–
Recognition of deferred income	5	**(39,326)**	(61,775)
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments		**4,245**	(4,045)
Loss on disposal of a subsidiary	6	**–**	622
Loss on derivative financial instruments – transactions not qualifying as hedges	6	**2,052**	3,236
Gain on bargain purchase	6	**(1,635)**	–
Impairment of property, plant and equipment	6	**22,711**	30,000
Changes in provision against inventories	6	**(3,306)**	(176,587)
Reversal of impairment of trade receivables	6	**–**	(4,525)
Recognition of prepaid land lease payments	6	**4,571**	4,612
Depreciation	6	**1,335,778**	1,370,689
Amortisation of other intangible assets	6	**159**	1,060
Unrecoverable prepaid tax		**–**	4,499
		2,761,761	2,436,029
(Increase)/decrease in inventories		**(636,655)**	4,420,318
Increase in trade receivables		**(7,767)**	(196,836)
(Increase)/decrease in prepayments, deposits and other receivables		**(39,139)**	65,338
(Increase)/decrease in amounts due from the immediate holding company		**(3,891)**	124
Increase/(decrease) in trade payables		**191,492**	(1,626,239)
Increase/(decrease) in amounts due to other related parties		**16**	(770)
Decrease in amounts due to the immediate holding company		**–**	(741)
(Decrease)/increase in other payables and accruals		**(108,069)**	12,002
Cash generated from operations		**2,157,748**	5,109,225
Interest paid		**(508,099)**	(611,521)
PRC corporate income tax paid		**(141,379)**	(60,278)
Net cash flows from operating activities		**1,508,270**	4,437,426

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		47,865	24,343
Purchases of items of property, plant and equipment		(149,357)	(225,760)
Construction payment refund to be settled		–	136,113
Receipt of government grants		32,740	128,590
Proceeds from disposal of items of property, plant and equipment		55,955	627,980
Proceeds from disposal of prepaid land lease payments		–	87,142
Dividends received from an associate		5,462	–
Disposal of a subsidiary	33	–	23,454
Disposal of derivative financial instruments		(5,288)	–
Increase in investment in an associate		(22,500)	–
Decrease/(increase) in non-pledged time deposits with original maturity over three months when acquired		120,332	(23,882)
Decrease in pledged time deposits		101,636	216,584
Net cash flows from investing activities		186,845	994,564
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of a corporate bond	28	2,970,000	–
New bank loans		5,347,521	8,380,746
Repayment of bank loans		(6,927,375)	(8,415,686)
Repayment of a finance lease		–	(4,755)
Dividends paid to owners of the parent		(148,821)	(70,947)
Dividends paid to non-controlling shareholders		(1,123)	–
Acquisition of non-controlling interests		(19,000)	–
Net cash flows from/(used in) financing activities		1,221,202	(110,642)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,916,317	5,321,348
Cash and cash equivalents at beginning of year		7,349,732	2,057,949
Effect of foreign exchange rate changes, net		(55,360)	(29,565)
CASH AND CASH EQUIVALENTS AT END OF YEAR		10,210,689	7,349,732
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	10,210,689	7,349,732
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	24	10,210,689	7,349,732

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	9,186,461	10,208,566
Investment property	15	6,879	7,080
Other intangible assets	17	950	1,109
Investments in subsidiaries	18	1,716,218	1,697,218
Deferred tax assets	30	82,079	71,479
Total non-current assets		10,992,587	11,985,452
CURRENT ASSETS			
Inventories	20	5,928,673	5,480,883
Trade receivables	21	511,888	496,852
Prepayments, deposits and other receivables	22	114,840	82,201
Due from subsidiaries	18	319,075	112,994
Due from the immediate holding company	23	12,203	8,312
Pledged time deposits	24	128,141	219,764
Non-pledged time deposits with original maturity over three months when acquired	24	–	120,300
Cash and cash equivalents	24	9,772,739	6,790,769
		16,787,559	13,312,075
Non-current assets classified as held for sale	14	4,455	20,496
Total current assets		16,792,014	13,332,571
CURRENT LIABILITIES			
Trade payables	25	1,864,665	1,170,193
Due to subsidiaries	18	849,196	1,826,481
Due to other related parties	23	5,686	5,670
Other payables and accruals	26	629,966	682,547
Interest-bearing bank and other borrowings	28	2,142,361	2,176,985
Tax payable		406,227	322,421
Total current liabilities		5,898,101	6,184,297
NET CURRENT ASSETS		10,893,913	7,148,274
TOTAL ASSETS LESS CURRENT LIABILITIES		21,886,500	19,133,726

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	28	6,353,071	4,083,950
Total non-current liabilities		6,353,071	4,083,950
Net assets		15,533,429	15,049,776
EQUITY			
Issued capital	31	1,194,389	1,194,389
Reserves	32(b)	14,141,010	13,706,566
Proposed final dividend	12(b)	198,030	148,821
Total equity		15,533,429	15,049,776

Zhang Hong Xia
Executive Director

Zhao Su Wen
Executive Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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 of disposal 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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

The adoption of these new and 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 9	*Financial Instruments*[5]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[5]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in July 2014[3]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in July 2014[3]
HKFRS 14	*Regulatory Deferral Accounts*[4]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Generally for annual periods or transactions beginning on or after 1 July 2014, although entities are permitted to apply them earlier

4 Effective for annual periods beginning on or after 1 January 2016

5 No mandatory effective date yet determined but is available for adoption

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 (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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.

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 non-current assets classified as held for sale), 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 of disposal, 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 impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired 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).

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or 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 of disposal. 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 net of any incentives received from the lessor 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 are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in some corporate wealth management products.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of the investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

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 and all collateral has been realised or has been transferred to the Group.

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 other expenses in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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 include trade payables, other payables and accruals, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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 repurchasing 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. 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a 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.

Derivative financial instruments

Initial recognition and subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 and an associate, 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 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 and an associate, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 or a shorter period, when appropriate, 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 such 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.

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 translated 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.

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

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 of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

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. There were no deferred tax assets relating to recognised tax losses at 31 December 2013 (2012: RMB43,718,000). The amount of unrecognised tax losses at 31 December 2013 was RMB328,000,000 (2012: RMB191,000,000). Further details are contained in note 30 to the financial statements.

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

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

Impairment of trade receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of inventories

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

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 2013 and 2012, is as follows:

	2013	2012
	RMB'000	*RMB'000*
Cotton yarn	**5,095,886**	6,902,721
Grey fabric	**7,528,629**	7,583,270
Denim	**1,256,127**	761,482
Others	**–**	483
	13,880,642	15,247,956

Geographical information

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

Revenue from external customers

	2013	2012
	RMB'000	*RMB'000*
Mainland China	**7,401,069**	10,367,191
Hong Kong	**3,305,286**	2,610,779
East Asia	**1,068,374**	817,960
Others	**2,105,913**	1,452,026
	13,880,642	15,247,956

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

4. OPERATING SEGMENT INFORMATION (continued)

Information about a major customer

No revenue from transactions with a single customer accounted for 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	2013 RMB'000	2012 RMB'000
Revenue			
Sale of textile goods		13,880,642	15,247,956
Other income			
Bank interest income		29,721	20,549
Interest income from available-for-sale financial investments		17,705	–
Compensation from suppliers on the supply of sub-standard goods and services		50,046	66,589
Recognition of deferred income	29	39,326	61,775
Government subsidies		13,671	17,044
Others		16,240	39,047
		166,709	205,004
Gains			
Sale of electricity and steam		2,263,939	2,832,240
Less: Cost thereon		(1,590,610)	(2,280,422)
Gains on sale of electricity and steam		673,329	551,818
Gain on disposal of items of property, plant and equipment and prepaid land lease payments		–	4,045
Gains on sale of waste and spare parts		23,677	33,543
Gain on bargain purchase		1,635	–
		698,641	589,406
		865,350	794,410

6. PROFIT BEFORE TAX

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

	Notes	**2013** **RMB'000**	2012 RMB'000
Cost of inventories sold		**12,684,162**	14,372,597
Employee benefit expense (excluding directors' and supervisors' remuneration *(note 7)*):			
Wages, salaries and other social insurance costs		**2,471,449**	2,165,768
Pension scheme contributions		**166,506**	140,933
		2,637,955	2,306,701
Depreciation	*14*	**1,335,778**	1,370,689
Recognition of prepaid land lease payments	*16*	**4,571**	4,612
Amortisation of other intangible assets	*17*	**159**	1,060
Impairment of property, plant and equipment	*14*	**22,711**	30,000
Changes in provision against inventories		**(3,306)**	(176,587)
Reversal of impairment of trade receivables	*21*	**–**	(4,525)
Loss/(gain) on disposal of items of property, plant and equipment and prepaid land lease payments		**4,245**	(4,045)
Loss on disposal of a subsidiary	*33*	**–**	622
Loss on derivative financial instruments – transactions not qualifying as hedges		**2,052**	3,236
Gain on bargain purchase	*5*	**(1,635)**	–
Auditors' remuneration		**6,789**	6,090
Bank interest income	*5*	**(29,721)**	(20,549)
Interest income from available-for-sale financial investments	*5*	**(17,705)**	–
Foreign exchange differences, net	*9*	**11,853**	29,713
Government subsidies	*5*	**(13,671)**	(17,044)
Recognition of deferred income	*29*	**(39,326)**	(61,775)
Repairs and maintenance		**312,222**	239,741
Research and development costs included in:			
Wages and salaries		**34,363**	32,804
Consumables		**25,564**	24,565
		59,927	57,369
Minimum land and building lease payments under operating leases		**22,826**	22,860

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	
	2013	2012
	RMB'000	*RMB'000*
Fees	**3,612**	3,862
Other emoluments:		
Salaries, allowances and benefits in kind	**337**	351
Pension scheme contributions	**63**	51
	400	402
	4,012	4,264

During the year, Mr. Wang Naixin, an independent non-executive director of the Company, waived the current and future remuneration from the Company. Except for that, there was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year (2012: 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 (2012: Nil).

(a) Independent non-executive directors

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

	2013	2012
	RMB'000	RMB'000
Mr. Wang Naixin	**–**	150
Mr. Xu Wenying	**150**	150
Mr. Chan Wing Yau, George	**472**	487
	622	787

There were no other emoluments and benefits payable to the independent non-executive directors during the year (2012: 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*
2013				
Executive directors:				
Ms. Zhang Hongxia	1,200	74	11	1,285
Ms. Zhao Suwen	600	55	11	666
Ms. Zhang Yanhong	600	53	8	661
Mr. Zhang Jinglei	300	51	11	362
	2,700	233	41	2,974
Non-executive directors:				
Mr. Zhang Shiping	100	–	–	100
Ms. Zhao Suhua	100	54	11	165
	200	54	11	265
	2,900	287	52	3,239

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*
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

* On 29 May 2012, Mr. Wang Zhaoting and Ms. Wang Xiaoyun resigned as non-executive directors of the Company.

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*
2013				
Mr. Lu Tianfu	**30**	**–**	**–**	**30**
Ms. Wang Wei	**30**	**–**	**–**	**30**
Ms. Wang Xiaoyun	**30**	**50**	**11**	**91**
	90	**50**	**11**	**151**
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

** On 29 May 2012, Mr. Liu Mingping resigned as a supervisor of the Company.

Except for the directors and supervisors set out above, no chief executive was engaged by the Group.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were five (2012: 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	
	2013	2012
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**513,836**	598,973
Interest on a corporate bond	**40,750**	–
Foreign exchange differences, net	**11,853**	29,713
Interest on a finance lease	**–**	200
	566,439	628,886

No interest was capitalised in 2013 (2012: Nil).

10. INCOME TAX

Except for a subsidiary in Hong Kong which is subject to profits tax at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2013, all other entities within the Group are subject to corporate income tax at the statutory tax rate of 25% (2012: 25%).

	Group	
	2013	2012
	RMB'000	*RMB'000*
Current		
– Mainland China	**238,914**	184,702
– Hong Kong	**5,719**	4,091
Deferred *(note 30)*	**50,224**	(4,041)
Total tax charge for the year	**294,857**	184,752

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 and the majority of its subsidiaries 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			
	2013		2012	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**921,775**		663,741	
Tax at PRC jurisdiction statutory tax rate	**230,444**	**25.0**	165,935	25.0
Effect of the different income tax rate for a Hong Kong subsidiary	**(2,946)**	**(0.3)**	(2,107)	(0.3)
Profit attributable to an associate	**(1,069)**	**(0.1)**	(959)	(0.2)
Expenses not deductible for tax	**6,698**	**0.7**	8,981	1.3
Tax losses not recognised	**17,972**	**2.0**	13,214	2.0
Derecognition of deferred tax assets recognised in previous years	**43,718**	**4.7**	–	–
Others	**40**	**–**	(312)	–
Tax charge at the Group's effective rate	**294,857**	**32.0**	184,752	27.8

The share of tax attributable to an associate amounting to RMB1,069,000 (2012: RMB959,000) is included in "Share of profit of an associate" in the consolidated statement of profit or loss and other comprehensive income.

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 2013 includes a profit of RMB632 million (2012: RMB569 million) which has been dealt with in the financial statements of the Company (note 32).

12. PROFIT APPROPRIATIONS

(a) Reserves

Under the PRC Company Law and the respective companies' articles of association, the 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 2013 and 2012.

(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 allowances 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

	2013	2012
	RMB'000	*RMB'000*
Proposed final – RMB0.1658 (2012: RMB0.1246) per share	**198,030**	148,821

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 amounts is based on the profit for the year attributable to ordinary equity holders of the parent of RMB628,807,000 (2012: RMB481,880,000), and the weighted average number of ordinary shares of 1,194,389,000 (2012: 1,194,389,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013					
At 31 December 2012 and at 1 January 2013:					
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
At 1 January 2013, net of accumulated depreciation and impairment	4,951,966	8,678,279	15,478	17,226	13,662,949
Additions	9,829	26,838	2,014	30,940	69,621
Disposals	–	(39,176)	(90)	–	(39,266)
Impairment	(21,000)	(1,711)	–	–	(22,711)
Depreciation provided during the year	(235,429)	(1,086,080)	(14,269)	–	(1,335,778)
Classified as held for sale	–	(4,455)	–	–	(4,455)
Transfers	23,235	12,892	–	(36,127)	–
At 31 December 2013, net of accumulated depreciation and impairment	4,728,601	7,586,587	3,133	12,039	12,330,360
At 31 December 2013:					
Cost	6,186,641	16,697,458	103,316	12,039	22,999,454
Accumulated depreciation and impairment	(1,458,040)	(9,110,871)	(100,183)	–	(10,669,094)
Net carrying amount	4,728,601	7,586,587	3,133	12,039	12,330,360

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 2012					
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 33)*	(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)

Company

	Buildings RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013					
At 31 December 2012 and at 1 January 2013:					
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
At 1 January 2013, net of accumulated depreciation and impairment	3,731,791	6,463,339	13,436	–	10,208,566
Additions	9,465	13,240	747	15,116	38,568
Disposals	–	(30,475)	(40)	–	(30,515)
Impairment	(21,000)	(1,711)	–	–	(22,711)
Depreciation provided during the year	(198,466)	(793,455)	(11,071)	–	(1,002,992)
Classified as held for sale	–	(4,455)	–	–	(4,455)
Transfers	1,727	2,844	–	(4,571)	–
At 31 December 2013, net of accumulated depreciation and impairment	3,523,517	5,649,327	3,072	10,545	9,186,461
At 31 December 2013:					
Cost	4,696,791	12,333,184	82,155	10,545	17,122,675
Accumulated depreciation and impairment	(1,173,274)	(6,683,857)	(79,083)	–	(7,936,214)
Net carrying amount	3,523,517	5,649,327	3,072	10,545	9,186,461

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 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)

At 31 December 2013, certain of the Group's buildings, machinery and equipment with a net carrying amount of approximately RMB2,694 million (2012: RMB3,095 million) were pledged to secure certain of the Group's bank loans (note 28(ii)).

During the year, the Group made a provision of approximately RMB21 million (2012: Nil) for one building whose steel structure was damaged by corrosion and will be dismantled in future. The recoverable amount of the building is approximately RMB6 million, based on fair value less costs of disposal, and the fair value is estimated with reference to the market price of the recycled steels of a similar building, and is categorised as level 2 within the fair value hierarchy.

The Group's idle buildings, machinery and equipment were revalued individually by Shanghai Wan Long Assets Evaluation Co., Ltd. ("Shanghai Wan Long"), an independent professionally qualified valuer, based on the fair value less costs of disposal. Based on the valuation report, no further impairment or reversal of impairment was charged to profit or loss in 2013 (2012: RMB30 million) except for the provision mentioned above.

Non-current assets classified as held for sale

At 31 December 2013, the items of machinery classified as non-current assets held for sale were under sales agreements entered into in March 2013 and expected to be fulfilled in 2014. As their fair values less costs of disposal were lower than their carrying amounts, an impairment loss of approximately RMB2 million was charged to profit or loss.

At 31 December 2012, the non-current assets held for sale were certain items of machinery under sales agreements as at 31 December 2012. These assets were sold during 2013.

15. INVESTMENT PROPERTY

Company	2013 RMB'000	2012 RMB'000
At 1 January:		
Cost – buildings	8,433	8,433
Accumulated depreciation and impairment	(1,353)	(1,152)
Net carrying amount	7,080	7,281
At 1 January, net of accumulated depreciation and impairment	7,080	7,281
Depreciation provided during the year	(201)	(201)
At 31 December, net of accumulated depreciation and impairment	6,879	7,080
At 31 December:		
Cost – buildings	8,433	8,433
Accumulated depreciation and impairment	(1,554)	(1,353)
Net carrying amount	6,879	7,080

The Company's investment property is leased to a subsidiary under an operating lease and was valued by Shanghai Wan Long, an independent professionally qualified valuer.

Under the discounted cash flow method, fair value of RMB7 million is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

15. INVESTMENT PROPERTY (continued)

A significant increase (decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase (decrease) in the fair value of the investment properties. A significant increase (decrease) in the long term vacancy rate and the discount rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long term vacancy rate.

The Group did not have any investment property as at 31 December 2013 and 2012.

16. PREPAID LAND LEASE PAYMENTS

Group	**2013** ***RMB'000***	2012 *RMB'000*
Carrying amount at 1 January	**190,362**	200,006
Disposals	**–**	(5,032)
Recognised during the year	**(4,571)**	(4,612)
Carrying amount at 31 December	**185,791**	190,362
Current portion included in prepayments, deposits and other receivables *(note 22)*	**(4,571)**	(4,571)
Non-current portion	**181,220**	185,791

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

At 31 December 2013, none of the Group's land use rights (2012: RMB48 million) was pledged to secure certain of the Group's bank loans (note 28(ii)).

17. OTHER INTANGIBLE ASSETS

Group

	2013 RMB'000	2012 RMB'000
Software and a technology right		
Cost at 1 January, net of accumulated amortisation	1,109	2,169
Amortisation provided during the year	(159)	(1,060)
At 31 December, net of accumulated amortisation	950	1,109
At 31 December:		
Cost	13,588	13,588
Accumulated amortisation	(12,638)	(12,479)
Net carrying amount	950	1,109

Company

	2013 RMB'000	2012 RMB'000
Software		
Cost at 1 January, net of accumulated amortisation	1,109	1,268
Amortisation provided during the year	(159)	(159)
At 31 December, net of accumulated amortisation	950	1,109
At 31 December:		
Cost	1,586	1,586
Accumulated amortisation	(636)	(477)
Net carrying amount	950	1,109

18. INVESTMENTS IN SUBSIDIARIES

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

	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	1,716,218	1,697,218
Due from subsidiaries	319,075	112,994
Due to subsidiaries	849,196	1,826,481

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 are as follows:

Company name	Place and date of incorporation/ registration and business	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	100	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
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	
	2013	2012
	RMB'000	*RMB'000*
Share of net assets	**74,014**	51,067

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

Particulars of the associate are as follows:

Company name	Place and date of incorporation/ registration and business	Paid-up capital/ registered share capital	Percentage of ownership interest attributable to the Group	Principal activities
Weihai Huancui District Hongyuan Microfinance Company Limited ("Hongyuan Microfinance") *	Weihai, Mainland China 5 January 2011	RMB150,000,000	45	Provision of finance and financial advisory services to small enterprises

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company, and the associate is accounted for using the equity method.

The following table illustrates the financial information of the Group's associate that is not individually material:

	2013	2012
	RMB'000	*RMB'000*
Share of the associate's profit	**4,276**	3,835
Carrying amount of the Group's investment in the associate	**74,014**	51,067

20. INVENTORIES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Raw materials	**694,161**	482,351
Work in progress	**683,830**	683,451
Semi-finished goods	**2,045,605**	1,194,962
Finished goods	**2,185,422**	2,884,882
Consumables	**74,070**	64,276
Raw materials in transit	**756,388**	489,593
	6,439,476	5,799,515

	Company	
	2013	2012
	RMB'000	*RMB'000*
Raw materials	**553,268**	443,705
Work in progress	**432,053**	454,821
Semi-finished goods	**1,365,035**	765,171
Finished goods	**1,495,611**	1,956,749
Consumables	**52,329**	49,200
Consigned materials for processing	**1,273,989**	1,432,955
Raw materials in transit	**756,388**	378,282
	5,928,673	5,480,883

At 31 December 2013, the carrying amounts of the Group and the Company's inventories were net of impairment provision of RMB417 million (2012: RMB420 million) and RMB268 million (2012: RMB254 million), respectively.

21. TRADE RECEIVABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**548,818**	550,065
Impairment	**(1,590)**	(1,590)
	547,228	548,475

	Company	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables	**513,478**	498,442
Impairment	**(1,590)**	(1,590)
	511,888	496,852

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	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**528,417**	545,170
3 to 6 months	**16,522**	47
6 months to 1 year	**107**	3,219
Over 1 year	**2,182**	39
	547,228	548,475

	Company	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**509,593**	493,547
3 to 6 months	**10**	47
6 months to 1 year	**107**	3,219
Over 1 year	**2,178**	39
	511,888	496,852

21. TRADE RECEIVABLES (continued)

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**1,590**	6,115
Impairment losses reversed	**–**	(4,525)
At 31 December	**1,590**	1,590

	Company	
	2013	2012
	RMB'000	*RMB'000*
At 1 January	**1,590**	6,115
Impairment losses reversed	**–**	(4,525)
At 31 December	**1,590**	1,590

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1.6 million (2012: RMB1.6 million) with a carrying amount before provision of RMB1.6 million (2012: RMB1.6 million).

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**488,547**	437,087
Less than 2 months past due	**39,870**	108,083
More than 2 months past due	**18,811**	3,305
	547,228	548,475

	Company	
	2013	2012
	RMB'000	*RMB'000*
Neither past due nor impaired	**469,722**	435,572
Less than 2 months past due	**39,871**	57,975
More than 2 months past due	**2,295**	3,305
	511,888	496,852

21. TRADE RECEIVABLES (continued)

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.

None of the Group's trade receivables is pledged (2012: Nil).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2013	2012
	RMB'000	*RMB'000*
Prepayments to suppliers	**23,308**	89,112
Prepaid land lease payments, current portion *(note 16)*	**4,571**	4,571
Interest receivables	**2,509**	2,948
Taxes recoverable	**97,924**	13,405
Other receivables and prepayments	**27,050**	9,213
	155,362	119,249

	Company	
	2013	2012
	RMB'000	*RMB'000*
Prepayments to suppliers	**20,838**	79,200
Interest receivables	**2,509**	2,948
Taxes recoverable	**65,511**	–
Other receivables and prepayments	**25,982**	53
	114,840	82,201

None of these assets is either past due or impaired. The financial assets included in the above 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 WITH ORIGINAL MATURITY OVER THREE MONTHS WHEN ACQUIRED

	Group	
	2013	2012
	RMB'000	*RMB'000*
Cash and bank balances	**10,210,689**	7,349,732
Time deposits	**141,963**	363,930
	10,352,652	7,713,662
Less: Pledged time deposits against:		
– Letters of credit	**(141,963)**	(243,598)
Non-pledged time deposits with original maturity over three months when acquired	**–**	(120,332)
Cash and cash equivalents	**10,210,689**	7,349,732

	Company	
	2013	2012
	RMB'000	*RMB'000*
Cash and bank balances	**9,772,739**	6,790,769
Time deposits	**128,141**	340,064
	9,900,880	7,130,833
Less: Pledged time deposits against:		
– Letters of credit	**(128,141)**	(219,764)
Non-pledged time deposits with original maturity over three months when acquired	**–**	(120,300)
Cash and cash equivalents	**9,772,739**	6,790,769

24. CASH AND CASH EQUIVALENTS, PLEDGED TIME DEPOSITS AND NON-PLEDGED TIME DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS WHEN ACQUIRED (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi amounted to RMB9,981 million (2012: RMB7,370 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	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**1,653,926**	1,828,194
3 to 6 months	**183,623**	2,893
6 months to 1 year	**19,122**	13,460
Over 1 year	**193,132**	91,346
	2,049,803	1,935,893

	Company	
	2013	2012
	RMB'000	*RMB'000*
Within 3 months	**1,474,685**	1,105,246
3 to 6 months	**182,914**	2,053
6 months to 1 year	**18,450**	4,967
Over 1 year	**188,616**	57,927
	1,864,665	1,170,193

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

26. OTHER PAYABLES AND ACCRUALS

	Group	
	2013	2012
	RMB'000	*RMB'000*
Payroll payable	**233,283**	210,262
Other taxes payable	**40,862**	186,526
Accruals	**64,889**	19,840
Other payables	**605,897**	616,617
	944,931	1,033,245

	Company	
	2013	2012
	RMB'000	*RMB'000*
Payroll payable	**167,976**	152,237
Other taxes payable	**17,862**	118,315
Accruals	**64,786**	19,690
Other payables	**379,342**	392,305
	629,966	682,547

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 instrument as at 31 December 2013.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2013			2012		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans						
– Unsecured	**3.5-6.8**	**2014**	**1,641,876**	2.4-7.6	2013	1,984,554
– Secured	**5.6-7.8**	**2014**	**1,482,000**	5.6-7.2	2013	2,098,690
Current portion of long term bank loans						
– Unsecured	**LIBOR+3.8**	**2014**	**30,485**	LIBOR+3.8	2013	94,283
– Secured	**6.0-7.4**	**2014**	**554,000**	6.0-7.4	2013	283,400
			3,708,361			4,460,927
Non-current						
Bank loans						
– Unsecured	**4.0-8.0**	**2015-2016**	**396,954**	6.0	2014	300,000
– Secured	**6.0-8.5**	**2015-2016**	**3,349,450**	6.0-8.2	2014-2015	4,305,450
Corporate bond						
– Unsecured	**7.4**	***note 28(vii)***	**2,971,667**			–
			6,718,071			4,605,450
			10,426,432			9,066,377

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

Company

	2013			2012		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans						
– Unsecured	**3.5-6.8**	**2014**	**1,541,876**	5.3-7.6	2013	1,125,702
– Secured	**6.3**	**2014**	**166,000**	6.2-7.2	2013	887,000
Current portion of long term bank loans						
– Unsecured	**LIBOR+3.8**	**2014**	**30,485**	LIBOR+3.8	2013	94,283
– Secured	**6.0-7.4**	**2014**	**404,000**	6.0-7.4	2013	70,000
			2,142,361			2,176,985
Non-current						
Bank loans						
– Unsecured	**4.0-8.0**	**2015-2016**	**396,954**	6.0	2014	300,000
– Secured	**6.0-7.8**	**2015-2016**	**2,984,450**	6.0-7.8	2014-2015	3,783,950
Corporate bond						
– Unsecured	**7.4**	***note 28(vii)***	**2,971,667**			–
			6,353,071			4,083,950
			8,495,432			6,260,935

	Group		**Company**	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**3,708,361**	4,460,927	**2,142,361**	2,176,985
In the second year	**2,980,904**	1,666,000	**2,615,904**	1,509,500
In the third to fifth years, inclusive	**765,500**	2,939,450	**765,500**	2,574,450
	7,454,765	9,066,377	**5,523,765**	6,260,935
Corporate bond repayable:				
In the third to fifth years, inclusive	**2,971,667**	–	**2,971,667**	–
	10,426,432	9,066,377	**8,495,432**	6,260,935

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

Notes:

(i) Other than certain of the Group's bank loans in an aggregate amount of US$60 million, equivalent to RMB366 million, as at the end of the reporting period (2012: US$174 million, equivalent to RMB1,091 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB4,706 million (2012: RMB5,703 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB2,694 million (2012: RMB3,143 million, including certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments)) as at the end of the reporting period.

(iii) Certain of the Group's bank loans up to RMB517 million (2012: RMB463 million) were secured by certain of Weihai Industrial Park and Binzhou Industrial Park's trade receivables from the Company of approximately RMB709 million (2012: RMB594 million) as at the end of the reporting period, which were eliminated in the consolidated statement of financial position.

(iv) None of the Group's bank loans (2012: RMB169 million) was secured by Binzhou Industrial Park's sales orders from the Company (2012: RMB254 million) as at the end of the reporting period.

(v) None of the bank loans of Weihai Weiqiao (31 December 2012: RMB19 million) was guaranteed by Weihai Civil Aviation Industrial Company Limited, which was no longer the non-controlling shareholder of Weihai Weiqiao as at the end of the reporting period.

(vi) The Company guaranteed bank loans of Weihai Industrial Park of approximately RMB352 million (2012: the Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB587 million) as at the end of the reporting period.

(vii) In October 2013, the Company issued a domestic corporate bond in an aggregate principal amount of RMB3 billion with nominal interest rate of 7.00% per annum and denomination and issue price of RMB100. The domestic corporate bond is with periods of five years and the Company has the right to raise the nominal interest rate, meanwhile, the investor could sell back at the end of the third year. Subsequent to the completion of the issue of the corporate bond, on 6 November 2013, the corporate bond was listed on the Shanghai Stock Exchange.

29. DEFERRED INCOME

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

	Group		Company
	2013	2012	2012
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	**323,904**	257,089	21,478
Additions	**32,740**	128,590	–
Recognised as income during the year	**(39,326)**	(61,775)	(21,478)
At 31 December	**317,318**	323,904	–
Portion classified as current liabilities	**40,267**	41,538	–
Non-current portion	**277,051**	282,366	–

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

The Company had no deferred income as at 31 December 2013.

30. DEFERRED TAX

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
At 1 January	**263,044**	259,281	**71,479**	100,060
(Charged)/credited to profit or loss during the year	**(50,502)**	3,763	**10,600**	(28,581)
At 31 December	**212,542**	263,044	**82,079**	71,479
Deferred tax liabilities				
At 1 January	**4,385**	4,663	**–**	–
Credited to profit or loss during the year	**(278)**	(278)	**–**	–
At 31 December	**4,107**	4,385	**–**	–
Deferred tax (charged)/credited to profit or loss *(note 10)*	**(50,224)**	4,041	**10,600**	(28,581)

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

30. DEFERRED TAX (continued)

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

	Group		Company	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Deferred tax assets				
Tax deductible loss	–	43,718	–	–
Provision against inventories	104,287	105,115	66,925	63,500
Impairment of trade receivables	398	398	398	398
Impairment of property, plant and equipment and investment properties	16,973	12,268	8,755	4,050
Government grants recognised as deferred income	79,330	80,976	–	–
Government grants not recognised as deferred income	125	–	–	–
Interest capitalisation on fixed assets, net of related depreciation	(4,858)	(5,203)	(4,858)	(5,203)
Difference in depreciation arising from different residual values of fixed assets recognised for tax and accounting purposes	11,238	9,113	10,859	8,734
Unrealised gains arising from intra-group sales	5,049	16,659	–	–
At 31 December	212,542	263,044	82,079	71,479
Deferred tax liabilities				
Interest capitalisation on fixed assets, net of related depreciation	4,107	4,385	–	–
At 31 December	4,107	4,385	–	–

The Group has tax losses arising in Mainland China of RMB328 million (2012: RMB365 million) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of tax losses of RMB328 million (2012: RMB191 million) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

31. SHARE CAPITAL

	2013 RMB'000	2012 RMB'000
Shares		
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	780,770	780,770
413,619,000 H shares of RMB1.00 each	413,619	413,619
	1,194,389	1,194,389

The Company does not have any share option scheme.

32. RESERVES

(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 2012	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
Final 2012 dividend declared	–	–	–	(148,821)	(148,821)
Total comprehensive income for the year *(note 11)*	–	–	632,474	–	632,474
Transfer from retained profits	–	63,247	(63,247)	–	–
Proposed final 2013 dividend *(note 12(b))*	–	–	(198,030)	198,030	–
At 31 December 2013	6,673,380	1,372,234	6,095,396	198,030	14,339,040

33. 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 2013.

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

34. CONTINGENT LIABILITIES

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

	Company	
	2013	2012
	RMB'000	*RMB'000*
Guarantees given to banks in connection with facilities granted to subsidiaries	**726,000**	970,915

The Group had no contingent liabilities as at 31 December 2013 and 2012.

As at 31 December 2013 and 2012, all the banking facilities granted to subsidiaries subject to guarantees given to banks by the Company were utilised.

35. 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.

36. 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 six 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	
	2013	2012
	RMB'000	*RMB'000*
Within one year	**600**	208
In the second to fifth years, inclusive	**600**	832
After five years	**–**	2,547
	1,200	3,587

36. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

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

At 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	
	2013	2012
	RMB'000	*RMB'000*
Within one year	**23,089**	22,042
In the second to fifth years, inclusive	**89,611**	87,958
After five years	**149,678**	171,653
	262,378	281,653

	Company	
	2013	2012
	RMB'000	*RMB'000*
Within one year	**22,233**	21,186
In the second to fifth years, inclusive	**86,187**	84,534
After five years	**142,303**	163,422
	250,723	269,142

37. COMMITMENTS

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

	Group	
	2013	2012
	RMB'000	*RMB'000*
Contracted, but not provided for	**200,705**	54,900

	Company	
	2013	2012
	RMB'000	*RMB'000*
Contracted, but not provided for	**159,365**	25,000

38. 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	
	2013	2012
	RMB'000	*RMB'000*
The immediate holding company:		
Sales of textile products	**129,381**	184,532
Sales of electricity	**1,872,240**	1,883,185
Expenses on land use rights and property leasing	**21,129**	21,425
Sales of textile products to fellow subsidiaries	**756,506**	768,050

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Textile products supply agreement with the Holding Company

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 renewed the Cotton Yarn, Grey Fabric and Denim Supply Agreement dated 20 October 2008 with a period of three years commencing on 1 January 2012 (the "Renewed Supply Agreement"). The Renewed Supply Agreement agreed a new maximum aggregate annual value of textile products supplied. Pursuant to the Renewed Supply Agreement, the Company will supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Holding Company, its subsidiaries other than the companies now comprising the Group and the associates of the Holding Company (collectively referred to as the "Holding Group").

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 agreement agreed a new maximum aggregate annual value of excess electricity supplied, and 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.

The agreement mentioned above (the "Old Supply of Excess Electricity Agreement") expired on 31 December 2013, and the Company made an announcement and a circular, respectively, on 1 November 2013 and 12 November 2013 to disclose that the Company entered into a new Supply of Excess Electricity Agreement (the "Renewed Supply of Excess Electricity Agreement") with the Holding Company with a period of three years commencing on 1 January 2014 and the terms and conditions of the Renewed Excess Electricity Supply Agreement are basically the same as the Old Supply of Excess Electricity Agreement except for the newly agreed maximum aggregate value.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company

As lessee

In the years ended 31 December 2012 and 2013, 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) A land use right lease agreement dated 30 September 2002 with the commencement date and expiry date on 30 September 2002 and 30 September 2022, respectively, was entered into with an annual rental of RMB888,700 for the land relating to the Weiqiao Second Production Area.

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

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

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

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

(vi) An 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 into with an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

On 1 February 2013, the operating lease agreement was extended for another three years with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, with an annual rental of RMB600,000.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Lease agreements with the Holding Company (continued)

As lessee (continued)

(vii) A 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 into with 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.

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

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

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

(x) A 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 into with an annual rental of RMB1,628,000 for the land relating to the Zouping Industrial Park Area.

(xi) A 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 into with an annual rental of RMB740,500 for the land relating to the Weihai Industrial Park Area.

38. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties

	Due from related parties		Due to related parties	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The Holding Company	**12,203**	8,312	**–**	–
Fellow subsidiaries	**–**	–	**5,686**	5,670

The balances with the immediate holding company and other 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 lease agreements mentioned in note 38(a), the Group entered into sales agreements with certain fellow subsidiaries with commitments amounting to RMB28,735,000 (31 December 2012: RMB15,250,000), which are expected to be fulfilled in 2014.

(d) Compensation of key management personnel of the Group

	2013	2012
	RMB'000	*RMB'000*
Short term employee benefits	**3,949**	4,213
Post-employment benefits	**63**	51
Total compensation paid to key management personnel	**4,012**	4,264

Further details of director's 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.

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Group			
	2013		2012	
Financial assets	**Loans and receivables**	**Total**	Loans and receivables	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade receivables	**547,228**	**547,228**	548,475	548,475
Due from the immediate holding company	**12,203**	**12,203**	8,312	8,312
Financial assets included in prepayments, deposits and other receivables	**29,559**	**29,559**	12,161	12,161
Pledged time deposits	**141,963**	**141,963**	243,598	243,598
Non-pledged time deposits with original maturity over three months when acquired	**–**	**–**	120,332	120,332
Cash and cash equivalents	**10,210,689**	**10,210,689**	7,349,732	7,349,732
	10,941,642	**10,941,642**	8,282,610	8,282,610

	2013		2012		
Financial liabilities	**Financial liabilities at amortised cost**	**Total**	Held for trading	Financial liabilities at amortised cost	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	**1,938,548**	**1,938,548**	–	1,783,098	1,783,098
Financial liabilities included in other payables and accruals	**904,069**	**904,069**	–	846,719	846,719
Derivative financial instruments	**–**	**–**	3,236	–	3,236
Interest-bearing bank and other borrowings	**10,426,432**	**10,426,432**	–	9,066,377	9,066,377
	13,269,049	**13,269,049**	3,236	11,696,194	11,699,430

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

	Company			
	2013		2012	
Financial assets	**Loans and receivables**	**Total**	Loans and receivables	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade receivables	**511,888**	**511,888**	496,852	496,852
Due from subsidiaries	**319,075**	**319,075**	112,994	112,994
Due from the immediate holding company	**12,203**	**12,203**	8,312	8,312
Financial assets included in prepayments, deposits and other receivables	**28,491**	**28,491**	3,001	3,001
Pledged time deposits	**128,141**	**128,141**	219,764	219,764
Non-pledged time deposits with original maturity over three months when acquired	**–**	**–**	120,300	120,300
Cash and cash equivalents	**9,772,739**	**9,772,739**	6,790,769	6,790,769
	10,772,537	**10,772,537**	7,751,992	7,751,992

	2013		2012	
Financial liabilities	**Financial liabilities at amortised cost**	**Total**	Financial liabilities at amortised cost	Total
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Trade payables	**1,764,331**	**1,764,331**	1,034,727	1,034,727
Due to subsidiaries	**849,196**	**849,196**	1,826,481	1,826,481
Financial liabilities included in other payables and accruals	**612,104**	**612,104**	564,232	564,232
Interest-bearing bank and other borrowings	**8,495,432**	**8,495,432**	6,260,935	6,260,935
	11,721,063	**11,721,063**	9,686,375	9,686,375

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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:

Management has assessed that the fair values of cash and cash equivalents, non-pledged time deposits with original maturity over three months when acquired, pledged time deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, amount due from the immediate holding company and the current portion of interest-bearing bank loans 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 loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms and remaining maturities. The fair value of a corporate bond is based on quoted market prices. The Group's own non-performance risk for interest-bearing bank and other borrowings at 31 December 2013 was assessed to be insignificant.

The carrying amounts and fair values of interest-bearing bank loans and corporate bond are as follows:

Group

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest-bearing bank loans	**7,454,765**	9,066,377	**7,463,829**	9,082,268
Corporate bond	**2,971,667**	–	**2,949,817**	–
	10,426,432	9,066,377	**10,413,646**	9,082,268

Company

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Interest-bearing bank loans	**5,523,765**	6,260,935	**5,524,907**	6,263,767
Corporate bond	**2,971,667**	–	**2,949,817**	–
	8,495,432	6,260,935	**8,474,724**	6,263,767

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (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 following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

Group

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Derivative financial instruments	–	3,236	–	3,236

The Group did not have any financial liabilities measured at fair value as at 31 December 2013.

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 for both financial assets and financial liabilities (2012: Nil).

Liabilities for which fair values are disclosed

Group

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1) ***RMB'000***	**Significant observable inputs (Level 2)** ***RMB'000***	**Significant unobservable inputs (Level 3)** ***RMB'000***	**Total** ***RMB'000***
Interest-bearing bank loans	**–**	**7,463,829**	**–**	**7,463,829**
Corporate bond	**2,949,817**	**–**	**–**	**2,949,817**
	2,949,817	**7,463,829**	**–**	**10,413,646**

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities for which fair values are disclosed (continued)

Group

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	9,082,268	–	9,082,268

Company

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active market (Level 1) ***RMB'000***	**Significant observable inputs (Level 2)** ***RMB'000***	**Significant unobservable inputs (Level 3)** ***RMB'000***	**Total** ***RMB'000***
Interest-bearing bank loans	**–**	**5,524,907**	**–**	**5,524,907**
Corporate bond	**2,949,817**	**–**	**–**	**2,949,817**
	2,949,817	**5,524,907**	**–**	**8,474,724**

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Liabilities for which fair values are disclosed (continued)

Company

As at 31 December 2012

	Fair value measurement using			
	Quoted prices in active market (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Interest-bearing bank loans	–	6,263,767	–	6,263,767

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also 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, liquidity risk and price risk. The Group does not have written risk management policies and guidelines. However, the Company's management periodically analyses and formulates strategies to manage the Group's exposure to financial risks. Generally, the Group introduces conservative strategies on its risk management. The Group's accounting policies in relation to 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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

		Group		Company
	Increase/ (decrease) in basis points	**Decrease/ (increase) in profit before tax** *RMB'000*	**Decrease/ (increase) in equity** *RMB'000*	**Decrease/ (increase) in equity** *RMB'000*
2013				
Renminbi	**50**	**18,745**	**14,059**	**13,496**
Renminbi	**(50)**	**(18,745)**	**(14,059)**	**(13,496)**
United States dollar	**50**	**610**	**457**	**457**
United States dollar	**(50)**	**(610)**	**(457)**	**(457)**
2012				
Renminbi	50	26,524	19,893	17,347
Renminbi	(50)	(26,524)	(19,893)	(17,347)
United States dollar	50	785	589	589
United States dollar	(50)	(785)	(589)	(589)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and the Group has applied the exposure to interest rate risk to those financial instruments in existence at those dates. The estimated 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise mainly from sales, purchases and bank loans of the Group in United States dollars. Approximately 62% or US$55 million (2012: 65% or US$56 million) of the Group's trade receivables were denominated in United States dollars, whilst approximately 67% or US$226 million (2012: 66% or US$204 million) of the Group's trade payables and 5% or US$60 million (2012: 12% or US$174 million) of the Group's bank loans were denominated in United States dollars.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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*
2013			
If RMB strengthens against US$	**(5)**	**51,825**	**38,721**
If RMB weakens against US$	**5**	**(51,825)**	**(38,721)**
If RMB strengthens against HK$	**(5)**	**(32)**	**(27)**
If RMB weakens against HK$	**5**	**32**	**27**
2012			
If RMB strengthens against US$	(5)	73,272	60,373
If RMB weakens against US$	5	(73,272)	(60,373)

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, amount due from the immediate holding company and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 34 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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 6% (2012: 14%) and 25% (2012: 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 and a corporate bond. The Group's policy is that not more than 50% of the borrowings should mature in any 12-month period. 36% of the Group's debts would mature in less than one year as at 31 December 2013 (2012: 49%) based on the carrying value of the borrowings reflected in the financial statements.

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

Group

	2013			
	Less than 3 months	**3 to less than 12 months**	**1 to 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Trade payables	875,015	1,063,533	–	1,938,548
Financial liabilities included in other payables and accruals	807,264	96,805	–	904,069
Interest-bearing bank and other borrowings	1,220,192	2,488,169	6,746,404	10,454,765
Interest payment on bank and other borrowings	111,890	407,987	621,585	1,141,462
	3,014,361	4,056,494	7,367,989	14,438,844

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2012			
	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

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

	2013			
	Less than 3 months	**3 to less than 12 months**	**1 to 5 years**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Trade payables	**786,502**	**977,829**	**–**	**1,764,331**
Due to subsidiaries	**849,196**	**–**	**–**	**849,196**
Financial liabilities included in other payables and accruals	**550,556**	**22,465**	**–**	**573,021**
Interest-bearing bank and other borrowings	**915,806**	**1,226,555**	**6,381,404**	**8,523,765**
Interest payment on bank and other borrowings	**81,519**	**360,011**	**609,450**	**1,050,980**
	3,183,579	**2,586,860**	**6,990,854**	**12,761,293**

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2012			
	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
	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

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 for its price risk during the year (2012: 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 2013 or 31 December 2012.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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 and other borrowings less cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2013	2012
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**10,426,432**	9,066,377
Less: Cash and cash equivalents	**(10,210,689)**	(7,349,732)
Net debt	**215,743**	1,716,645
Total equity	**16,101,848**	15,643,874
Gearing ratio	**1.3%**	11.0%

42. EVENTS AFTER THE REPORTING PERIOD

On 13 January 2014, the board of directors of the Company determined to change the estimated useful lives of the Group's production plants with steel structure from 40 years to 20 years since January 2014, as a result of the Group's reevaluation of the estimated useful lives of these plants with reference to production plants with similar steel structure in the industry. The carrying amount of these plants was approximately RMB261 million as at 31 December 2013. The effect of this change of accounting estimate will be recognised in the subsequent period according to HKAS 8, and an monthly increase of depreciation of property, plant and equipment amounting to approximately RMB1 million is expected to be recorded in profit or loss of the Group.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 21 March 2014.