魏橋紡織股份有限公司
Weiqiao Textile Company Limited
(Stock Code : 2698)

# 2015
# ANNUAL REPORT

# CONTENTS

# FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

## COMPARISON OF KEY FINANCIAL FIGURES

Results

| | For the year ended 31 December (RMB'000) | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** |
| Revenue | 15,232,034 | 15,247,956 | 13,880,642 | 11,211,146 | **9,765,478** |
| Gross profit | 278,489 | 1,037,207 | 1,205,630 | 742,819 | **558,313** |
| Gross profit margin (%) | 1.8 | 6.8 | 8.7 | 6.6 | **5.7** |
| Profit before income tax | 254,555 | 663,741 | 921,775 | 446,927 | **1,327,264** |
| Net profit attributable to shareholders of the parent | 245,584 | 481,880 | 628,807 | 308,243 | **979,347** |
| Net profit margin (%) | 1.6 | 3.2 | 4.5 | 2.7 | **10.0** |
| Basic earnings per share (RMB) | 0.21 | 0.40 | 0.53 | 0.26 | **0.82** |

Assets and liabilities

| | As at 31 December (RMB'000) | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** |
| Total assets | 29,356,819 | 28,373,669 | 30,310,462 | 28,959,365 | **29,081,434** |
| Equity | 15,238,312 | 15,643,874 | 16,101,848 | 16,210,478 | **17,095,184** |
| Total liabilities | 14,118,507 | 12,729,795 | 14,208,614 | 12,748,887 | **11,986,250** |
| Return on equity* (%) | 1.6 | 3.1 | 4.0 | 1.9 | **5.9** |
| Current ratio (times) | 1.4 | 1.8 | 2.4 | 3.3 | **3.7** |
| Accounts receivable turnover (days) | 8 | 13 | 14 | 9 | **10** |
| Inventory turnover (days) | 245 | 149 | 185 | 190 | **169** |
| Accounts payable turnover (days) | 84 | 50 | 59 | 43 | **41** |

*Note:* * Calculated based on average equity

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS

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

## NON-EXECUTIVE DIRECTORS

Zhang Shiping
Zhao Suhua

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin
Chen Shuwen
Chan Wing Yau, George

## SUPERVISORS

Lv Tianfu
Wang Wei
Wang Xiaoyun

## SENIOR MANAGEMENT

Wei Jiakun

## COMPANY SECRETARY

Zhang Jinglei

## AUDIT COMMITTEE

Chan Wing Yau, George *(Chairman)*
Wang Naixin
Chen Shuwen

## REMUNERATION COMMITTEE

Wang Naixin *(Chairman)*
Zhang Hongxia
Chen Shuwen

## NOMINATION COMMITTEE

Zhang Hongxia *(Chairman)*
Wang Naixin
Chen Shuwen

## AUTHORISED REPRESENTATIVES

Zhao Suwen
Zhang Jinglei

## PLACE OF BUSINESS IN HONG KONG

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

## LEGAL ADDRESS IN THE PRC

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

## PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Wei Fang 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 2015

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

## INVESTOR RELATIONS

Ms. Zhou Meng
Tel: (852) 2815 1090
Email: catherine@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
18 March 2016

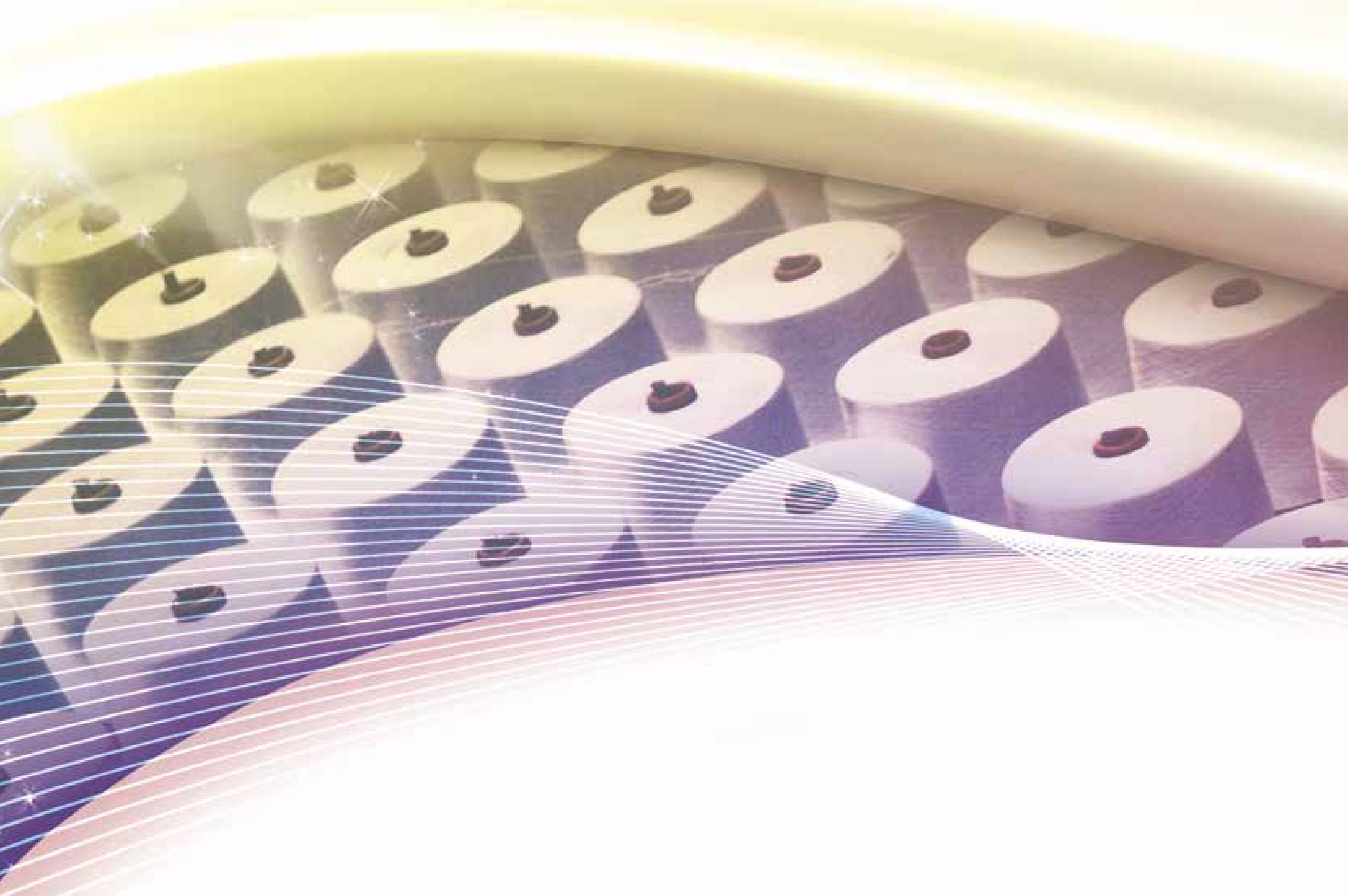
## DATE OF ANNUAL GENERAL MEETING

30 May 2016

## DISTRIBUTION DATE OF FINAL DIVIDEND

24 June 2016

# CHAIRMAN'S STATEMENT



It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the audited consolidated results of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2015 (the "Year" or "Year under Review").

During the Year under Review, we witnessed a complex global economic situation as various nations faced a sluggish recovery, with slowdown in global economic and trade growth and increasing volatility in the international financial market. As the PRC economy was also under downward pressure, the operational pressure of Chinese textile industry increased.

According to the PRC customs statistics, China's total exports of textile products and apparel for the Year was US$283.9 billion, representing a decrease of 4.9% on a year-on-year basis. Exports of textile products decreased by 2.4% year-on-year to US$109.5 billion, and exports of apparel decreased by 6.4% year-on-year to US$174.4 billion.

During the Year, growth of domestic demand for textile products maintained basically stable. According to the National Bureau of Statistics of the PRC, retail sales of apparel, footwear, headwear and knitwear for 2015 by companies above a designated size in China (with annual revenue of over RMB20 million) posted a year-on-year increase of 9.8%, which was 1.1 percentage points lower than the growth rate of the previous year and also lower than the growth rate in retail sales of consumer goods during the same period of previous year, showing a trend of month-on-month decrease in the second half of the Year.

# CHAIRMAN'S STATEMENT

Being affected by various adverse factors including a weak economy, intensified competition in the export market and sluggish growth in domestic demand, the development of the textile industry in China during the Year under Review faced severe challenges, with a dramatic drop in domestic cotton consumption. Meanwhile, the implementation of cotton policy reform by the PRC government led to cotton prices being increasingly market-oriented and narrowed the gap between domestic and overseas prices, showing a volatile and downward trend. In the crop year of 2015/16, despite the improvement in the supply-and-demand condition in the domestic cotton market and the commencement of the destocking cycle, it will still be some time before cotton demand picks up.

During the Year under Review, though the Group has strived to reduce inventory of textile products, given several adverse factors such as the ongoing sluggish market demand for textile products and a declining domestic cotton price, sales price of the Group's textile products and the sales volume of grey fabric and denim decreased as compared with the corresponding period of last year, leading to a year-on-year decrease in the revenue and squeezing the gross profit margin of the Group's textile products. The Group recorded revenue of approximately RMB9,765 million for the Year, representing a decrease of approximately 12.9% on a year-on-year basis, and the gross profit margin of the Group's products was approximately 5.7%, representing a decrease of approximately 0.9 percentage points over the previous year. Net profit attributable to owners of the parent for the Year was approximately RMB979 million, representing an increase of approximately 217.9% over the previous year. Earnings per share were RMB0.82, representing an increase of approximately 215.4% as compared with the corresponding period of last year, which was mainly attributable to the substantial increase in gains from the sales of electricity due to the significant decrease of unit power generation cost after the completion of the thermal power assets swap by the Group at the end of 2014.

During the Year, the Group adhered to the strategy of developing middle to high-end products and exploring emerging markets, attached great importance to technological innovation, enhanced the development of new products and continually optimized the product mix. New trial varieties of cotton yarn products included new type of pure or blended spur fiber and others, while the Group also tested new trial varieties of grey fabric products focusing on the development of functional fabric, multicomponent fabric, filament yarns, hemp fiber materials and various pattern designs. In the future, the Group will continue to focus on enhancing our core competitiveness and innovation capability, so as to increase the added-value of products.

Looking ahead into 2016, the external environment for the textile industry will remain complex and challenging. Recovery of the global economy remains slow, and an improvement in international demand is unlikely to occur in the near future. With continued progress in structural reform of the supply front, the PRC economy is expected to maintain medium-to-high growth within a reasonable range. In 2016, it is expected that over-supply in the global cotton market will remain unchanged, and the international cotton price will remain in a relatively low range. Although the issues affecting the development of the Chinese textile industry, such as the intensified competition in domestic and overseas markets and rising labor cost and other production costs, remain unresolved, the implementation of the “Made in China 2025” plan and efforts to accelerate the transformation from a big manufacturing power into a strong manufacturing power by the government also present the textile industry an opportunity to transform from “big” to “big and strong”. China is speeding up the integration of new generations of information technology into the textile and apparel sector to promote the green and low carbon, digital, intelligent and flexible development of the industry. In addition, driven by various factors such as increasing household income, improved urbanization, implementation of the “comprehensive two-child policy” and destocking of the real estate industry, China's domestic consumption will continue to grow steadily. At the same time, demand for diversified, personalized and stylish products has become the mainstream trend, which will further accelerate the ongoing upgrade in consumption structure. With the increasing demand for middle to high-end and functional textile products, the market for high value-added products will continue to expand.

# CHAIRMAN’S STATEMENT

Facing the challenges and opportunities amidst this shifting environment, Weiqiao Textile will further improve its level of “intelligent and digitalized manufacturing”, so as to enhance its innovation capability. The Group will also strengthen technological research and development and equipment upgrades to pursue for an economically resourceful growth pattern of low input, low consumption, low emission and high efficiency. At the same time, the Group will adhere to a strategy of developing middle to high-end products to improve its gross margin. While placing equal emphasis on domestic and export markets, the Group will further optimize its product mix to cater for the domestic market demand for middle to high-end textile products. The Group will continue to fulfill its social responsibilities of energy saving and environmental protection with high standards and strict requirements, so as to lay a solid foundation for sustainable development of the Group.

On behalf of the management of Weiqiao Textile, I would like to express my gratitude to our shareholders for their unwavering support towards the Group. The macroeconomic adjustments in recent years have presented challenges unprecedented to the textile industry. However, we believe that the important position of the textile industry in the national economy as a traditional pillar and consumer necessities industry will remain unchanged. Weiqiao Textile will remain market-oriented and continue to live out its corporate value of pushing technological advancement, building our company brand and contributing to ecological development. While continuous efforts will be made to increase our intrinsic value, we are committed to creating greater value for our shareholders and contributing to the sustainable development of society.

**Zhang Hongxia**
*Chairman of the Board*

Shandong, the PRC
18 March 2016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# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

During the Year, the PRC economy was at the stage of transformation with structural adjustment, showing increasing downward pressure. The growth of GDP for the Year was only 6.9%. Negatively affected by the macro economy, the Chinese textile industry was also under growing pressure, featuring a shift in growth drivers, continuous adjustments and an overall stable performance.

According to the statistics released by the National Commercial Information Center of the PRC, retail sales by the top 100 major retail enterprises in China in 2015 decreased by 0.1% year-on-year, representing a decrease of 0.5 percentage point in growth rate as compared with the corresponding period of last year. In terms of category of products, the retail sales of apparels in the Year decreased by 0.3% year-on-year, representing a decrease of 1.3 percentage points in growth rate from the corresponding period of last year, while the retail sales volume increased by 6.4% year-on-year, representing an increase of 6.7 percentage points in growth rate from the corresponding period of last year.

Due to the combined effect of continuously sluggish demand in domestic and overseas markets, as well as diminishing traditional advantages and the declining price of commodities, both the export and import amount of China decreased in 2015. According to statistics released by the PRC customs, export of China's textile and apparel products in 2015 amounted to approximately US$283.9 billion, down by approximately 4.9% as compared with last year, of which the export of textile and apparel products decreased by 2.4% and 6.4% respectively. During the Year, exports of textile and apparel products of China to the following countries and regions were summarized as follows:

– United States: approximately US$47.7 billion, representing an increase of approximately 6.7% from the corresponding period of last year.

– European Union: approximately US$53.1 billion, representing a decrease of approximately 9.4% over the corresponding period of last year.

– Japan: approximately US$21.6 billion, representing a decrease of approximately 11.7% as compared with the corresponding period of last year.

– Hong Kong: approximately US$13.9 billion, representing a decrease of approximately 15.9% as compared with the corresponding period of last year.

The amount of export of China's textile products and apparel to the markets of Middle East and Africa increased by approximately 4.6% and 5.2%, respectively, as compared with the corresponding period of last year.

# MANAGEMENT DISCUSSION AND ANALYSIS

In terms of raw materials, as implementation of the cotton policy reform by the PRC government drove cotton prices being increasingly market-oriented and narrowed the gap between domestic and overseas prices, coupled with the weak growth in end-user spending, cotton prices showed a volatile and downward trend. According to the Cotton A Index, the average price for cotton in China during the Year was approximately RMB13,766 per ton, representing a year-on-year decrease of approximately 22.8%. Overseas cotton prices also decreased due to weak demand. The average global market price for cotton, according to the Cotlook A Index, was approximately 70.39 US cents per pound, representing a year-on-year decrease of approximately 15.3%. In the long run, the narrowing gap between domestic and overseas cotton prices will help improve the overall export competitiveness of China's textile manufacturing industry.

## BUSINESS REVIEW

During the Year under Review, as the domestic cotton price was on a decline path due to weak recovery of the global economy, sluggish textile demand and impact from imported textile products, the selling price of China's textile products decreased accordingly, narrowing down the gross profit of textile products of the Group. Despite this, gains from the sales of electricity recorded substantial increase due to the significant decrease of unit power generation cost after the completion of the thermal power assets swap by the Group at the end of 2014.

For the year ended 31 December 2015, 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"));

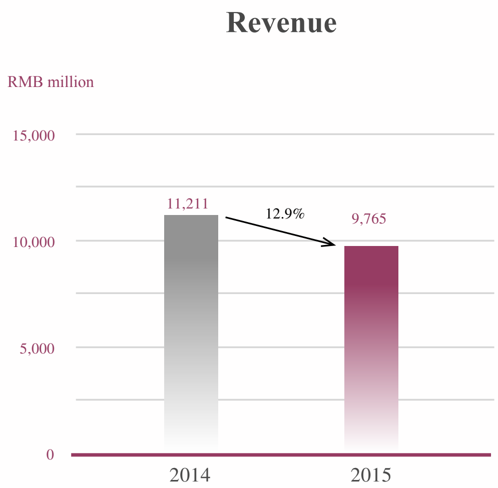
3. Weihai Production Base (Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park")); and

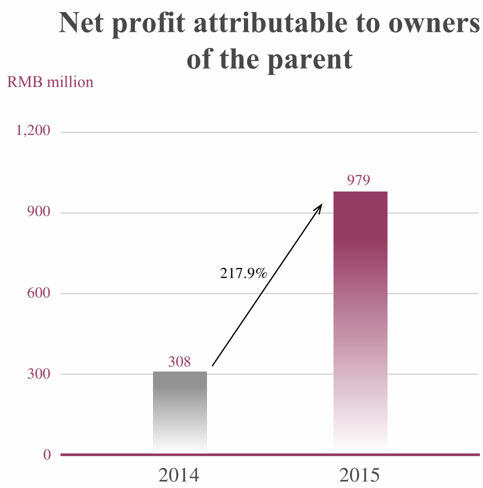
4. Zouping Production Base (the First Industrial Park of Zouping, the Second Industrial Park of Zouping and the Third Industrial Park of Zouping).

Production and operation of the Group remained stable and all facilities were functioning in good conditions during the Year under Review.

# MANAGEMENT DISCUSSION AND ANALYSIS

For the years ended 31 December 2015 and 2014, the revenue of the Group and net profit attributable to owners of the parent were as follows:



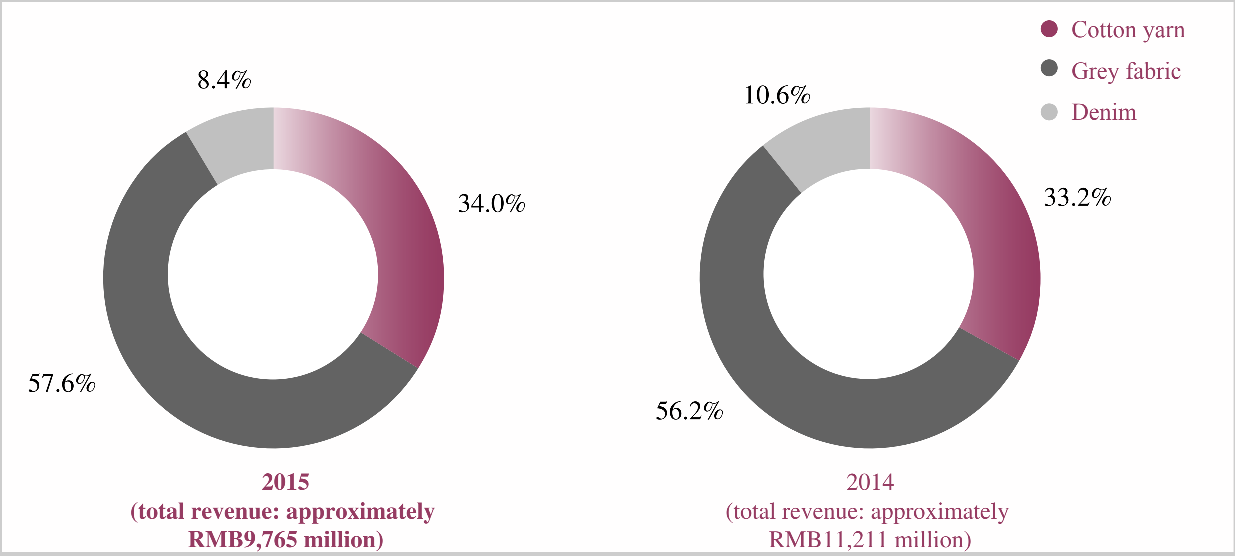




For the year ended 31 December 2015, the Group recorded revenue of approximately RMB9,765 million, representing a decrease of approximately 12.9% as compared with the corresponding period of last year, and net profit attributable to owners of the parent of approximately RMB979 million, representing an increase of approximately 217.9% as compared with last year. The decrease in revenue was mainly attributable to the decrease in both selling prices of the textile products of the Group and the sales volume of grey fabric and denim due to reduced market demand for textile products and the decrease in cotton price. The increase in net profit attributable to owners of the parent was mainly attributable to the substantial increase in gains from the sales of electricity and steam as a result of the significant decrease in unit power generation cost after the completion of the thermal power assets swap by the Group at the end of 2014.

# MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are the proportion of revenue by product for the years ended 31 December 2015 and 2014:

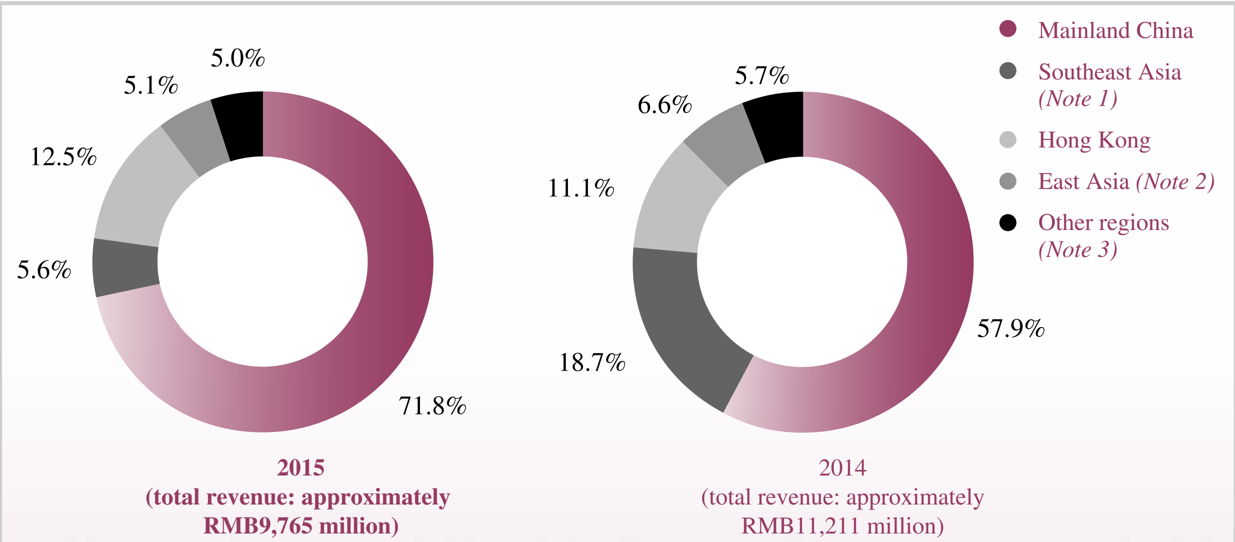
**Proportion of revenue by product**




For the year ended 31 December 2015, the contribution proportion to the revenue of each of cotton yarn, grey fabric and denim remained stable.

The following charts show the breakdown of the Group's revenue in terms of geographical location for the years ended 31 December 2015 and 2014:

**Proportion of revenue by geographical location**




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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2015, under the backdrop of a slow recovery in the global economy and sluggish domestic and overseas market demand, the Group took initiatives in adjusting its product mix and exploring additional domestic growth opportunities, thus recording growth in domestic sales revenue as compared to the corresponding period of last year. During the Year, the proportion of the Group's overseas revenue was approximately 28.2%, while the proportion of domestic revenue was approximately 71.8%.

During the Year under Review, the Group adjusted its production plan according to market conditions and its inventory level, and as a result the output of cotton yarn and grey fabric declined as compared with the corresponding period of last year. Cotton yarn output was approximately 332,000 tons, representing a decrease of approximately 15.7% compared with the corresponding period of last year; grey fabric output was approximately 919,000,000 meters, representing a decrease of approximately 6.0% as compared with the corresponding period of last year; denim output was approximately 81,000,000 meters, representing an increase of approximately 6.6% as compared with the corresponding period of last year, mainly due to the increase in the output of middle to high-end denim based on market demand.

## FINANCIAL REVIEW

### Revenue, Gross Profit and Gross Profit Margin

The table below is an analysis of the revenue, gross profit and gross profit margin attributable to its major products for the years ended 31 December 2015 and 2014, respectively:

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | | 2014 | | |
| **Product categories** | **Revenue** | **Gross profit** | **Gross profit margin** | Revenue | Gross profit | Gross profit margin |
| | ***RMB'000*** | ***RMB'000*** | ***%*** | *RMB'000* | *RMB'000* | *%* |
| Cotton yarn | **3,322,472** | **270,005** | **8.1** | 3,719,738 | 86,084 | 2.3 |
| Grey fabric | **5,625,137** | **90,024** | **1.6** | 6,306,286 | 378,869 | 6.0 |
| Denim | **817,869** | **198,284** | **24.2** | 1,185,122 | 277,866 | 23.4 |
| Total | **9,765,478** | **558,313** | **5.7** | 11,211,146 | 742,819 | 6.6 |

For the year ended 31 December 2015, gross profit of the Group decreased by approximately 24.9% over the corresponding period of last year to approximately RMB558 million. The decrease was primarily attributable to sluggish demand and intensified competition in the textile market domestically and internationally, resulting in a decrease in sales prices of the products of the Group and a decrease in the sales volume of grey fabric and denim. Gross profit margin of the Group was approximately 5.7%, representing a decrease of approximately 0.9 percentage point over the corresponding period of last year, mainly attributable to the decrease in the gross profit margin of grey fabric of the Group during the Year, which caused the overall decrease in gross profit.

# MANAGEMENT DISCUSSION AND ANALYSIS

### Other Income and Gains

For the year ended 31 December 2015, other income and gains of the Group were approximately RMB1,871 million, representing an increase of approximately 107.7% from approximately RMB901 million for the corresponding period of last year. Such increase was mainly due to the decrease in coal price during the Year and the higher efficiency of the thermal power assets acquired by the Group through the swap at the end of 2014 that significantly reduced the unit power generation cost of the Group, thus raising the gains from sales of electricity and steam substantially.

For the year ended 31 December 2015, the Group's revenue generated from the sales of electricity and steam amounted to approximately RMB2,733 million, representing an increase of approximately 29.8% over the corresponding period of last year, mainly attributable to the increase in electricity generated, and external sales volume increased accordingly, due to the higher operating efficiency of the thermal power assets acquired by the Group through the swap.

### Selling and Distribution Expenses

For the year ended 31 December 2015, the Group's selling and distribution expenses dropped by approximately 16.4% to approximately RMB133 million from approximately RMB159 million for the corresponding period of last year. Among these expenses, transportation costs decreased by approximately 16.8% to approximately RMB79 million from approximately RMB95 million for the same period of last year, which was mainly due to the decrease in the fees for transportation resulting from a decline in unit freight during the Year. Salary of the sales staff was approximately RMB24 million, remaining same as that of the corresponding period of last year. Sales commission was approximately RMB7 million, representing a decrease of approximately 36.4% from approximately RMB11 million for the same period of last year, which was primarily due to the decrease of overseas revenue, leading to a decline in commission payouts.

### Administrative Expenses

For the year ended 31 December 2015, the administrative expenses of the Group were approximately RMB328 million, representing an increase of approximately 10.1% from approximately RMB298 million for the corresponding period of last year. Such increase was primarily due to an increase in idle assets as a result of adjustments in the production plan by the Group according to the market demand, leading to an increase in the depreciation expense which shall be recorded in the administrative expenses.

### Finance Costs

For the year ended 31 December 2015, finance costs of the Group were approximately RMB619 million, representing a decrease of approximately 3.0% from approximately RMB638 million for the corresponding period of last year, among which, the interest expenses amounted to approximately RMB609 million, representing a decrease of approximately 3.2% as compared with approximately RMB629 million for the corresponding period of last year, which was mainly attributable to the decrease in the bank loans and the slight decrease in the borrowing interest rate of the Group during the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and Financial Resources

As at 31 December 2015, cash and cash equivalents of the Group were approximately RMB12,032 million, representing an increase of approximately 12.3% as compared with the cash and cash equivalents of approximately RMB10,713 million as at 31 December 2014, which was mainly attributable to the Group's efforts in reducing some of the inventory of cotton yarn during the Year, leading to a corresponding increase in cash and cash equivalents.

The working capital of the Group is mainly financed by cash inflow from operating activities. For the year ended 31 December 2015, the Group recorded a net cash inflow from operating activities of approximately RMB3,716 million. Net cash outflow from investing activities was approximately RMB1,535 million, and net cash outflow from financing activities was approximately RMB902 million. As at the end of the Year, the cash and cash equivalents was approximately RMB12,032 million. The Group will continue to take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs, and will maintain a sound financial position.

For the year ended 31 December 2015, the inventory turnover days of the Group were 169 days, representing a decrease of 21 days from 190 days for the same period of last year. This was mainly due to the adjustment of its production plan by the Group and the sales of part of inventories during the Year.

For the year ended 31 December 2015, the average turnover days of the Group's receivables was 10 days, which was stable compared with the corresponding period of last year.

For the years ended 31 December 2015 and 2014, the Group did not use any derivative financial instruments.

## Net Profit Attributable to Owners of the Parent and Earnings per Share

For the year ended 31 December 2015, net profit attributable to owners of the parent was approximately RMB979 million, representing an increase of approximately 217.9% from approximately RMB308 million for the corresponding period of last year.

For the year ended 31 December 2015, earnings per share of the Company were RMB0.82.

## 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 own business and maximize shareholders' interests. The Group continued to focus on its equity and debt mix to ensure the best capital structure to reduce capital costs.

As at 31 December 2015, the debts of the Group were mainly bank borrowings totaling approximately RMB3,043 million (31 December 2014: approximately RMB3,841 million) and corporate bonds amounting to approximately RMB5,972 million (31 December 2014: approximately RMB5,953 million). The Group had cash and cash equivalents of approximately RMB12,032 million (31 December 2014: approximately RMB10,713 million). As at 31 December 2015, the Group's gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by total equity) was approximately -17.6% (31 December 2014: approximately -5.7%).

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group manages its interest expenses through a fixed rate and floating rate liabilities portfolio. As at 31 December 2015, approximately 44.0% of the Group's bank loans were subject to fixed interest rates, while the remaining approximately 56.0% were subject to floating interest rates.

The Group maintains a balance between the continuity and flexibility of funds through bank loans 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 2015, approximately 19.2% of the Group's borrowings will mature within one year.

As at 31 December 2015, the Group's bank loans were denominated in Renminbi and US dollars, of which bank loans in US dollars represented approximately 1.9% of the total bank borrowings, while cash and cash equivalents were denominated in Renminbi and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 3.6% of the total amount.

### Employees and Emolument Policies

As at 31 December 2015, the Group had a total of approximately 69,000 employees, representing a decrease of approximately 5,000 employees as compared with that of last year. Such decrease in the number of staff was mainly attributable to the decrease in staff reserves due to the decrease in production volume as the Group adjusted its production plan based on market demand, and also the reduced unit labor intensity by optimizing production. Total staff costs of the Group amounted to approximately RMB2,585 million during the Year, representing a decrease of approximately 4.8% over approximately RMB2,716 million as recorded for the corresponding period of last year.

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

### 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 2015, approximately 28.2% of the Group's revenue and approximately 15.0% of the costs of purchase of cotton were denominated in US dollars. For the year ended 31 December 2015, the Group recorded an exchange gain of approximately RMB30 million due to the depreciation of RMB. During the Year, the Group did not experience any significant difficulties or impacts on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believe that the Group will have sufficient foreign currency to meet its requirements.

### Contingent Liabilities

As at 31 December 2015 and 2014, the Group did not have any significant contingent liabilities.

### Taxation

For the year ended 31 December 2015, the tax of the Group increased from approximately RMB140 million in 2014 to approximately RMB350 million in 2015, representing an increase of approximately 150.0%. Such increase in tax was mainly attributable to the increase in the Group's profit before tax during the Year.

### Financial Product

As at 22 April 2015, the Company (as the assets trustor) entered into the assets management agreement with CITIC-CP Asset Management (as the assets manager) and CITIC Shanghai Branch (as the assets trustee) in relation to the management of the Entrusted Assets. On 22 April 2015 and 29 June 2015, the Company made the initial Investment of RMB499,000,000 and further investment of RMB799,000,000, respectively. The expected annual rates of return of initial investment and further investment are 7%. The management period of the Entrusted Assets is from 23 April 2015 to 23 April 2017. During the Year, the profit received by the Company from the Entrusted Assets amounted to approximately RMB49,726,000. The Entrusted Assets were invested in cash assets, bonds financial assets and other financial assets with fixed income. Please refer to the announcements of the Company dated 22 April 2015 and 29 June 2015 for details on these financial products.

## KEY RISKS AND UNCERTAINTIES

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

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

## ENVIRONMENTAL POLICIES

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

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

## COMPLIANCE WITH LAWS AND REGULATIONS

The Company was incorporated in the PRC and majority of its business operation is in China, while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The operation of the Group is subject to the relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2015 and up to the date of this annual report, the Group has, in all material respect, complied with all the relevant laws and regulations in the PRC and Hong Kong.

## RELATIONSHIP WITH KEY STAKEHOLDERS

### (i) Employees

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

### (ii) Suppliers

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

**(iii) Customers**

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

## SUBSEQUENT EVENTS

### Acquisition of Thermal Power Assets

On 18 December 2015, the Company entered into the memorandum of understanding with Zouping Changshan Industry Co., Ltd. ("Changshan Industry") regarding the acquisition of thermal power assets in order to promote the proceeding of the acquisition. On 11 March 2016, the Company entered into the assets acquisition agreement with Changshan Industry, pursuant to which the Company agreed to acquire the thermal power assets with a capacity of 1,320 MW owned by Changshan Industry (including the land use rights, powerhouses, projects under construction and machinery and equipment of the thermal power assets) at a total consideration of approximately RMB3,186,425,000 (including the deposit in an amount of RMB300 million that has been paid by the Company to Changshan Industry). The Company shall satisfy the payment by cash, by installments or in full, within ten business days after the date of completion of the acquisition. The consideration was determined with reference to the appraised value of the assets under the assets acquisition agreement as at 31 December 2015. The total amount of investment to be made by the Company is expected to be approximately RMB4,600 million (including the consideration under the assets acquisition agreement and the contractual obligations that are expected to be assumed and further performed by the Company for the completion of the construction of the whole project after the acquisition). For details on the acquisition of the thermal assets, please refer to the announcements and circular of the Company dated 18 December 2015, 11 March 2016 and 24 March 2016, respectively.

## OUTLOOK

Looking ahead into 2016, given the uncertainties and volatile factors, the global economy faces a bumpy road to recovery. Driven by the increasing consumer demand, it is expected that the growth rate of developed economies will achieve a mild increase as compared with 2015, while emerging economies will show relatively weak recovery. In view of this, the textile industry in the PRC will strive to maintain its market share in the U.S., Japan, Europe and other developed economies by optimizing its investment strategies and trade portfolios, while also stepping up efforts in exploring opportunities in various emerging market economies.

# MANAGEMENT DISCUSSION AND ANALYSIS

2016 marks the launch of the "Thirteenth Five-Year Plan" by the Chinese government. With the acceleration of supply-side structural reforms, and driven by the policies including "cutting over capacity, destocking, deleveraging, reducing costs and identifying growth areas", "mass entrepreneurship and innovation" and "made in China 2025", it is expected that the Chinese economy will still have a large recovery space and continue to register steady, healthy and stable economic growth.

Under this backdrop, the Chinese textile industry faces both challenges and opportunities. On one hand, as over-supply in the global cotton market remains unsolved, it is expected that cotton price will stay in a relatively low range in 2016, which will put pressure on the price of end-products, while issues such as intensified competition in the domestic market and rising labor cost and other production costs remain unsolved. On the other hand, the implementation of a series of supportive policies for the manufacturing industry and the increase in domestic consumer demand will provide support for the development of the industry, and it is expected that the depreciation of Renminbi will promote the export business.

Efforts will be made to our market shares in both the domestic and overseas markets, optimize the product mix, enhance product innovation and improve the level of equipment automation. In terms of overall strategy, Weiqiao Textile will further explore middle to high-end markets according to market demands. The Group will reinforce investments in research and development and step up efforts in building its talent reserves, with an aim to strengthen its innovative capabilities. With respect to operations, the Group will make better use of the resources available, source cotton globally and improve cost controls in line with changes in the market for raw textile materials, so as to reduce the impact of cotton price fluctuations on its operating results. Furthermore, adhering to its strategy of placing equal emphasis on domestic sales and overseas exports, the Group will optimize its trade structure. Leveraging on our consistently high quality products and scale advantages, the Group will improve its order delivery capability and bargain power. Efforts will be stepped up to promote intelligent upgrades of equipment, increase labor efficiency and reduce labor costs. The Group will continue to improve its operating results leveraging on the operation of the thermal power assets. The Group will strictly comply with the requirements of energy conservation and environmental protection, in an effort to promote "green manufacturing".

By leveraging its positive brand image, extensive operational experience and solid financial position, the Group is confident that it can improve its core competitiveness, seize strategic opportunities arising from industry changes, and maintain and reinforce its position as the preferred supplier of cotton textile products both in China and across the globe.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

### Zhang Hongxia

Ms. Zhang Hongxia, aged 44, is the chairman 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 University of Technology (大連理工大學) on 7 July 2006, and is responsible for the overall strategic planning of the Group. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. She has over 21 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 Shandong Weiqiao Chuangye Group Limited (山東魏橋創業集團有限公司) ("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, the vice president of the 6th session of the China Chamber of Commerce for Import & Export of Textiles and the vice president of China Cotton Textile Association. Mr. Zhang Shiping is her father, and Ms. Zhang Yanhong is her younger sister.

### Zhang Yanhong

Ms. Zhang Yanhong, aged 40, 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 University of Technology in July 2006. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. Ms. Zhang has over 15 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, SUPERVISORS AND SENIOR MANAGEMENT

### Zhao Suwen

Ms. Zhao Suwen, aged 41, 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 28 May 2015. She has over 22 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 39, 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 major 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 28 May 2015. 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, SUPERVISORS AND SENIOR MANAGEMENT

## NON-EXECUTIVE DIRECTORS

### Zhang Shiping

Mr. Zhang Shiping, aged 69, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a professional diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. He was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. 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, and was granted the title of "National Labour Model" by the State Council in 1995 and was rated as one of the "2015 Top Ten Economic Figures in China" in 2016. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

### Zhao Suhua

Ms. Zhao Suhua, aged 46, graduated from Adult Education College of Qingdao University, and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. She has over 18 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, SUPERVISORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 61, 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. (滙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), 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), convener of Sir Robert Black Trust Fund Investment Committee (柏立基爵士信託基金投資委員會) and members of Police Children's Education Trust (警察子女教育信託基金) and Police Education and Welfare Trust (警察教育及福利信託基金). He is currently a member of the Chinese People's Political Consultative Committee of Yuexiu District, Guangzhou City, the chairman and chief executive officer of Capital Focus Asset Management Limited (匯駿資產管理有限公司). Mr. Chan is also the independent non-executive director of Infinity 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 28 May 2015, with the term of his appointment effective from 28 May 2015.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Chen Shuwen

Mr. Chen Shuwen, aged 60, graduated from Dongbei University of Finance and Economics (東北財經大學) with a bachelor degree in Economics in 1982 and obtained a master degree and a PhD in Economics from Jilin University (吉林大學) in 1988 and 1996, respectively. Mr. Chen has substantial management and leadership experience serving in the PRC government. He commenced his career as the Deputy County Chief of the Benxi Manchu Autonomous County, Liaoning Province, the PRC, in March 1992 and was the Director of the Benxi City Commission for Restructuring the Economic Systems (本溪市經濟體制改革委員會主任) (from September 1995 to January 1998). He was the Director General of the Benxi Foreign Trade & Economic Cooperation Committee (本溪市對外經濟貿易合作委員會主任) (from February 1998 until February 2001). Mr. Chen was the professor and the tutor for doctorate students at the Faculty of Management and Economics of Dalian University of Technology (大連理工大學管理學院) (from December 2003 to September 2010) as well as the dean at the Department of Public Administration and Law of Dalian University of Technology (大連理工大學公共管理與法學學院) (from October 2010 to January 2015). Mr. Chen was the independent directors of Dalian Huarui Heavy Industry Group Co., Ltd. (大連華鋭重工集團股份有限公司) (stock code: 002204) (from December 2012 to February 2015), Yingkou Port Liability Co., Ltd. (營口港務股份有限公司) (stock code: 600317) (from October 2006 to April 2013) and Dalian Daxian Enterprises Holdings Co., Ltd. (大連大顯控股股份有限公司) (stock code: 600747) (from September 2008 to August 2013). He is currently the professor and the tutor for doctorate students at the Department of Public Administration and Law of Dalian University of Technology (大連理工大學公共管理與法學學院) (since October 2010), as well as an independent non-executive director of First China Financial Network Holdings Limited (首華財經網絡集團有限公司) (stock code: 8123.HK) (since September 2011). Mr. Chen is a qualified PRC lawyer currently practicing at Liaoning Tianhe Law Firm (遼寧天合律師事務所). He has been approved to be an independent non-executive Director of the Company at the annual general meeting of Weiqiao Textile Company Limited held on 27 May 2014.

### Wang Naixin

Mr. Wang Naixin, aged 64, 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 28 May 2015.

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## SUPERVISORS

### Lv Tianfu (Independent Supervisor)

Mr. Lv Tianfu, aged 81, 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 28 May 2015. He does not currently hold any other position in the Group.

### Wang Wei (Independent Supervisor)

Ms. Wang Wei, aged 74, 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 28 May 2015. She does not currently hold any other position in the Group.

### Wang Xiaoyun

Ms. Wang Xiaoyun, aged 51, 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 21 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 28 May 2015. She is now the head of the production technical department of the Company (since February 2006).

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

Wei Jiakun, aged 48, was appointed as the general manager of the Company on 18 November 2014. Mr. Wei is responsible for supervising the Group's general operation and formulating the Group's business strategies, as well as overseeing the Group's production, operation and marketing of the Group's products. He joined the Company's predecessor, Weiqiao Cotton Spinning Factory (位橋棉紡廠), in 1986 and has over 26 years of experience in cotton textile industry. Mr. Wei had served as the workshop director (車間主任) and director (廠長) in the spinning mill of Weiqiao Cotton Spinning Factory (位橋棉紡廠) from September 1990 to October 2001, the general manager of Weihai Weiqiao from November 2001 to September 2002, the deputy general manager of Weiqiao Industrial Park of the Company from October 2002 to January 2005, the general manager of Zouping No.2 Industrial Park of the Company from February 2005 to April 2009 and the general manager of Binzhou Industrial Park from May 2009 to November 2014. Currently, he also serves as the director of the Holding Company.

# REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sales 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 2015.

## RESULTS AND DIVIDENDS

The operating results of the Group for the year ended 31 December 2015 and the consolidated financial position of the Group as at 31 December 2015 are set out in the audited financial statements on pages 65 to 67 in this annual report.

The Directors recommended the payment of a final dividend of RMB0.2534 (inclusive of tax) per share (the "2015 Final Dividend") to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 9 June 2016 (Thursday), and the dividend will be paid on or before 24 June 2016. The 2015 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 of the Company (the "Domestic Shares") will be distributed and paid in RMB, while dividends for H shares of the Company (the "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 PRC within five working days prior to and including 9 June 2016).

## 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 2011, 2012 and 2013, and from the audited consolidated financial statements of the Group for the year ended 31 December 2014 and the year ended 31 December 2015 on pages 65 to 67 of this annual report is set out below:

### Results

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| Revenue | 15,232,034 | 15,247,956 | 13,880,642 | 11,211,146 | **9,765,478** |
| Cost of sales | (14,953,545) | (14,210,749) | (12,675,012) | (10,468,327) | **(9,207,165)** |
| Gross profit | 278,489 | 1,037,207 | 1,205,630 | 742,819 | **558,313** |
| Other income and gains | 927,998 | 794,410 | 865,350 | 900,701 | **1,871,452** |
| Selling and distribution expenses | (180,418) | (206,211) | (204,199) | (159,054) | **(132,683)** |
| Administrative expenses | (230,650) | (252,398) | (283,578) | (297,710) | **(327,570)** |
| Other expenses | (75,353) | (84,216) | (99,265) | (111,440) | **(27,849)** |
| Finance costs | (467,743) | (628,886) | (566,439) | (637,728) | **(618,937)** |
| Share of profit of an associate | 2,232 | 3,835 | 4,276 | 9,339 | **4,538** |
| Profit before tax | 254,555 | 663,741 | 921,775 | 446,927 | **1,327,264** |
| Tax | (15,230) | (184,752) | (294,857) | (139,914) | **(349,654)** |
| Profit and total comprehensive income for the year | 239,325 | 478,989 | 626,918 | 307,013 | **977,610** |
| Profit and total comprehensive income attributable to: | | | | | |
| Owners of the parent | 245,584 | 481,880 | 628,807 | 308,243 | **979,347** |
| Non-controlling interests | (6,259) | (2,891) | (1,889) | (1,230) | **(1,737)** |
| | 239,325 | 478,989 | 626,918 | 307,013 | **977,610** |

# REPORT OF THE DIRECTORS

### Assets and liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | **2015** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| Total assets | 29,356,819 | 28,373,669 | 30,310,642 | 28,959,365 | **29,081,434** |
| Total liabilities | 14,118,507 | 12,729,795 | 14,208,614 | 12,748,887 | **11,986,250** |

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2015 are set out in Note 13 to the financial statements.

## SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital during the year ended 31 December 2015 are set out in Note 28 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 2015.

## 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 nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities during the year ended 31 December 2015.

# REPORT OF THE DIRECTORS

## RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2015 are set out in Note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2015, 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 RMB1,532 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 RMB7,439 million for distribution as dividend.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2015, sales to the Group's five largest customers accounted for approximately 18.9% of the Group's total sales for the year ended 31 December 2015, while sales to its largest customer accounted for approximately 6.2% of the Group's total sales for the year ended 31 December 2015.

During the year ended 31 December 2015, purchases from the Group's five largest suppliers accounted for approximately 47.6% of the Group's total purchases for the year ended 31 December 2015, while purchases from the Group's largest supplier accounted for approximately 16.7% of the Group's total purchases for the year ended 31 December 2015.

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 2015, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), and the Board considers each of the independent non-executive Directors to be independent.

## EMOLUMENTS OF DIRECTORS

Except for Mr. Wang Naixin (an independent non-executive Director), 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 8 to the financial statements.

# REPORT OF THE DIRECTORS

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

Each of the executive Directors, supervisors (excluding the independent supervisors) and senior management of the Company has entered into a service contract with the Company for a term of three years. Each of the non-executive Directors, 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, supervisor and senior management is eligible for re-election and consecutive appointment upon expiration of his/her term of office.

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

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

**Executive Directors:**

| | |
|---|---|
| Zhang Hongxia | Until the date of annual general meeting of 2017 |
| Zhang Yanhong | Until the date of annual general meeting of 2017 |
| Zhao Suwen | Until the date of annual general meeting of 2017 |
| Zhang Jinglei | Until the date of annual general meeting of 2017 |

**Non-executive Directors:**

| | |
|---|---|
| Zhang Shiping | Until the date of annual general meeting of 2017 |
| Zhao Suhua | Until the date of annual general meeting of 2017 |

**Independent non-executive Directors:**

| | |
|---|---|
| Wang Naixin | Until the date of annual general meeting of 2017 |
| Chen Shuwen | Until the date of annual general meeting of 2016 |
| Chan Wing Yau, George | Until the date of annual general meeting of 2017 |

**Supervisors:**

| | |
|---|---|
| Lv Tianfu *(Note)* | Until the date of annual general meeting of 2017 |
| Wang Wei *(Note)* | Until the date of annual general meeting of 2017 |
| Wang Xiaoyun | Until the date of annual general meeting of 2017 |

*Note:* Independent supervisor

**Senior management:**

| | |
|---|---|
| Wei Jiakun (general manager) | Until 18 November 2017 |

# REPORT OF THE DIRECTORS

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

## DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN CONTRACTS

Save for those transactions described in Note 35, 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, supervisors or senior management had a material interest, whether directly or indirectly, subsisted during or at the end of 2015.

## CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 35, 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 2015, 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 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:

| **Name of Shareholder** | **Number of Domestic Shares** *(Note 1)* | **Approximate percentage of total issued domestic share capital as at 31 December 2015** *(%)* | **Approximate percentage of total issued share capital as at 31 December 2015** *(%)* |
|---|---|---|---|
| Holding Company | 757,869,600 | 97.06 | 63.45 |
| Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment") | 757,869,600 *(Note 2)* | 97.06 | 63.45 |

Interests in the H Shares:

| Name of Shareholder | Type of interest | Number of H Shares *(Note 3)* | Approximate percentage of total issued H share capital as at 31 December 2015 *(%)* | Approximate percentage of total issued share capital as at 31 December 2015 *(%)* |
|---|---|---|---|---|
| Brandes Investment Partners, L.P. | Investment manager | 78,462,862 (Long position) *(Note 4)* | 18.97 | 6.57 |
| Mellon Financial Corporation | Interest of a controlled corporation | 41,073,100 (Long position) *(Note 5)* | 9.93 | 3.44 |

*Note 1:* Unlisted shares.

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

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

*Note 4:* These 78,462,862 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.

Save as disclosed above, so far as known to the Directors, supervisors and the chief executives of the Company, as at 31 December 2015, 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', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES

As at 31 December 2015, 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 2015** *(%)* | **Approximate percentage of total issued share capital as at 31 December 2015** *(%)* |
|---|---|---|---|---|
| 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 2015 *(%)* |
|---|---|---|---|
| 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 2015, 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.

## 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 2015.

# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

The "Related Party Transactions" as set out in Note 35 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.

During the year ended 31 December 2015, 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 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 Garment is a 67.18% owned subsidiary of Holding Company. Elite Garment is a 75% owned subsidiary of Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. 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.

3. Binzhou Municipal Binbei New Material Co., Limited ("Binzhou Municipal Binbei") is an indirectly wholly-owned subsidiary of China Hongqiao. Mr. Zhang Shiping, a non-executive Director of the Company, is an executive director of China Hongqiao, indirectly holding 78.51% of the issued share capital of China Hongqiao. Accordingly, Binzhou Municipal Binbei constitutes a connected person of the Company under the Listing Rules.

Details of the non-exempt continuing connected transactions of the Group for the year ended 31 December 2015 are set out below. The Company has complied with relevant requirements under the Listing Rules.

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

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003 to 25 August 2006 ("Supply Agreement"). In September 2003, 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 on 25 August 2006 for a term of three years commencing from 25 August 2006. 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 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). 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 21 October 2014 with the term starting from 1 January 2015 and ending on 31 December 2017. 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 this 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, 11 November 2011, 21 October 2014 and 24 November 2014, respectively.

### Lease of Land Use Rights and Property 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 lands respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping County, Shandong Province, the PRC, and the land use rights in respect of land located 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 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.

(vii) 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.

(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.

(ix) A property lease agreement dated 1 February 2013 with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, was entered into with an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights and property in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their business in Zouping County, Shandong Province, the PRC. For further details of the leases of land and property to the Company by the Holding Company, please refer to the section of "Related Party Transactions" in Note 35 to the financial statements.

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

**Supply of Steam for Production Use by Holding Company to the Company**

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

The price at which steam is supplied to the Company by Holding Company shall be RMB150 per ton (inclusive of value-added tax at 13%). The price of steam supplied by Holding Company to the Company are determined by reference to the prices at which comparable types of relevant products are supplied by Holding Company to independent third parties under normal commercial terms in the ordinary course of its business in Zouping County, Shandong Province, the PRC.

Further details of this continuing connected transactions are set out in the Company's announcement dated 3 July 2015.

### Supply of Steam for Production Use by Binzhou Municipal Binbei to Binzhou Industrial Park

Binzhou Industrial Park, a subsidiary of the Company, and Binzhou Municipal Binbei entered into the steam supply agreement on 3 July 2015 for a period from 3 July 2015 to 31 December 2017 (both days inclusive), pursuant to which, Binzhou Municipal Binbei agreed to supply steam to Binzhou Industrial Park for its production use.

The price at which steam is supplied to Binzhou Industrial Park by Binzhou Municipal Binbei shall be RMB170 per ton (inclusive of value-added tax at 13%). The price of steam supplied by Binzhou Municipal Binbei to Binzhou Industrial Park are determined by reference to the prices at which comparable types of relevant products are supplied by Binzhou Municipal Binbei to independent third parties under normal commercial terms in the ordinary course of its business in Binzhou, Shandong Province, the PRC.

Further details of this continuing connected transactions are set out in the Company's announcement dated 3 July 2015.

### Figures for the Year Ended 31 December 2015

Below is a table setting out the aggregate value for each of the above mentioned continuing connected transactions for the year ended 31 December 2015:

| | **Transaction nature** | **Aggregate value for the year ended 31 December 2015** *(RMB'000)* |
|---|---|---|
| 1. | Supply of cotton yarn, cotton fabric and denim by the Group to the Parent Group | 1,375,767 |
| 2. | Supply of excess electricity by the Company to Holding Company | 2,565,567 |
| 3. | Lease of land use rights and property by Holding Company to the Group | 17,965 |
| 4. | Supply of steam for production use by Holding Company to the Company | 4,346 |
| 5. | Supply of steam for production use by Binzhou Municipal Binbei to Binzhou Industrial Park | 13,592 |

### Confirmation by the Independent Non-executive Directors and Auditors

The independent non-executive Directors have reviewed such continuing connected transactions and confirmed that each of such 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 no sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned, and in the interest of the shareholders of the Company as a whole;

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

(iv) within the relevant annual cap.

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

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

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

(iii) the above continuing connected transactions have been 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.

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

## 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. The Company has been in compliance with all provisions of the CG Code for the year ended 31 December 2015.

## 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 three independent non-executive Directors. An Audit Committee meeting was held on 18 March 2016 to review the Group's annual report and financial statements.

## BUSINESS REVIEW

The business review of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 11 to 22.

## INTERNATIONAL AUDITORS

Ernst & Young was the Company's international auditors for the year ended 31 December 2015. A resolution for the reappointment of Ernst & Young as the international auditors of the Company will be proposed at the annual general meeting of 2015.

The Company has not changed the auditors for the thirteen years ended 31 December 2015.

On Behalf of the Board

**Zhang Hongxia**
*Chairman of the Board*

Shandong, the PRC
18 March 2016

# REPORT OF THE SUPERVISORY COMMITTEE

## TO ALL SHAREHOLDERS,

In 2015, the supervisory committee of the Company (the "Supervisory Committee") duly performed its duties of supervision in accordance with the principle of being accountable to shareholders and the laws and regulations including the Company Law of the PRC and the Articles of Association. During the year, the Supervisory Committee actively participated in reviewing the subject matters of material decisions and the significant economic activities of the Company, provided advices and recommendations thereon, effectively supervised the acts of Directors and the management in performing their duties and reviewed on an irregular basis the Company's operation and financial positions so as to protect the interests of shareholders. The work of the Supervisory Committee in 2015 is reported as follows:

### 1. Work of the Supervisory Committee

In 2015, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 20 March 2015, the 6th 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 2014", "The Audited Financial Report for the Year Ended 31 December 2014", "The Profit Distribution Proposal for 2014" and "The Financial Report on the Final Account for 2014" were reviewed and approved.

2. On 21 August 2015, the 1st meeting of the 6th Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, the review report for the six months ended 30 June 2015 issued by Ernst & Young was discussed and approved.

### 2. Independent opinions of the Supervisory Committee on relevant issues of the Company for 2015

*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 2015, the Company operated in strict compliance with the Company Law of the PRC, the Articles of Association and other related laws and regulations and the decisions made were scientific and reasonable; the internal management and internal control system was improved and a sound internal control mechanism was established; the Directors and senior management of the Company performed their duties diligently and in compliance with the laws and regulations, the Articles of Association and the rules to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

# REPORT OF THE SUPERVISORY COMMITTEE

2. *Financial activities of the Company*

   The Supervisory Committee had reviewed and inspected the financial position and financial management of the Company, and considered that the Group's financial report for 2015 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 2016, 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

**Lv Tianfu**
*Chairman of the Supervisory Committee*

Shandong, the PRC
18 March 2016

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

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

During the year ended 31 December 2015, the Company has complied with the code provisions of the CG Code.

## SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the Model Code contained in Appendix 10 to the 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 2015, 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 2015, 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. Wang Naixin
Mr. Chen Shuwen

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 to issue the Company's debentures; formulating the plans for the Company's merger, demerger and dissolution; making decisions on the deployment of the internal management bodies of the Company; appointing or removing the Company's general manager, 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.

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 2015 | Attendance of general meetings held in 2015 |
|---|---|---|
| Ms. Zhang Hongxia | 4/4 | 1/1 |
| Ms. Zhang Yanhong | 4/4 | 1/1 |
| Ms. Zhao Suwen | 4/4 | 1/1 |
| Mr. Zhang Jinglei | 4/4 | 1/1 |
| Mr. Zhang Shiping | 4/4 | 1/1 |
| Ms. Zhao Suhua | 4/4 | 1/1 |
| Mr. Chan Wing Yau, George | 4/4 | 1/1 |
| Mr. Chen Shuwen | 4/4 | 1/1 |
| Mr. Wang Naixin | 4/4 | 1/1 |

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

# CORPORATE GOVERNANCE REPORT

## THE CHAIRMAN OF THE BOARD AND THE CHIEF EXECUTIVE OFFICER

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

The responsibility of the chairman of the Board is to manage the Board, while the responsibility of the chief executive officer is to manage the business of the Company. The chairman of the Board 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. During the year, all the Directors have been required to provide their training records to the Company, which were kept by the Company Secretary. All Directors, namely Mr. Zhang Shiping, Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Ms. Zhao Suhua, Mr. Zhang Jinglei, Mr. Wang Naixin, Mr. Chen Shuwen 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.

## PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2015, 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.

# CORPORATE GOVERNANCE REPORT

## 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. Wang Naixin
Mr. Chen Shuwen

The following resolutions were passed on 20 March 2015 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 2014;

2. to consider and approve the consolidated audited financial report of the Company for the year ended 31 December 2014;

3. to consider and approve the profit distribution plan and financial report on the final account of the Company for 2014;

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 2015 and Ernst & Young as the Company's international auditor for the year ended 31 December 2015;

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

6. to consider and approve the annual report and results announcement of the Company for 2014.

On 21 August 2015, 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 2015, 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 2015 were the appropriate accounting policies;

(3) regarding the portion in the financial statements for the six months ended 30 June 2015 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 2015 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 2015, 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 2015, 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 2015 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 2015; and

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

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

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

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

   (i) any changes in accounting policies and practices;

   (ii) areas where significant judgment is involved;

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

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

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

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

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

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

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

(11) reviewing the 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 CG Code;

(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 during the year ended 31 December 2015:

| Committee Members | Attendance of audit committee meetings held in the year ended 31 December 2015 |
|---|---|
| Mr. Chan Wing Yau, George | 2/2 |
| Mr. Wang Naixin | 2/2 |
| Mr. Chen Shuwen | 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, analysis 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.

### The Composition of the Remuneration Committee

Mr. Wang Naixin *(Chairman of the Remuneration Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

One meeting was held by the Remuneration Committee during the year ended 31 December 2015.

| | **Attendance of remuneration committee meeting held in 2015** |
|---|---|
| Mr. Wang Naixin | 1/1 |
| Ms. Zhang Hongxia | 1/1 |
| Mr. Chen Shuwen | 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 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.

### The Composition of the Nomination Committee

Ms. Zhang Hongxia *(Chairman of the Nomination Committee)*
Mr. Wang Naixin
Mr. Chen Shuwen

One meeting was held by the Nomination Committee during the year ended 31 December 2015.

| | **Attendance of nomination committee meeting Held in 2015** |
|---|---|
| Ms. Zhang Hongxia | 1/1 |
| Mr. Wang Naixin | 1/1 |
| Mr. Chen Shuwen | 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.

## BOARD DIVERSITY POLICY

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

## PROPOSED GRANT OF A GENERAL MANDATE AT THE ANNUAL GENERAL MEETING 2015

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 2015 to allot and deal with not more than 20% of the aggregate nominal amount of domestic shares or H shares of the Company, subject to specific conditions. For details, please refer to special resolution 8 in the notice of annual general meeting 2015 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 2015, the external auditors Ernst & Young and Ernst & Young Hua Ming LLP have provided the Group with the following services:

| | **2015** |
|---|---|
| | *RMB'000* |
| Interim review service | 1,600 |
| Annual audit service | 4,450 |
| Other non-auditing services | 250 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the effectiveness of the risk management and 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 risk management and internal control system of the Group on a regular basis, which covers financial, operational, compliance procedural, risk management and internal control functions. The Board confirmed that the risk management and 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 2015, 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 2015.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

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

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

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who do not intend or are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

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

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

## INVESTORS RELATIONS

The Company maintains a two-way communication channel to report the performance of the Company to its shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be 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 set out on pages 65 to 136, which comprise the consolidated statement of financial position as at 31 December 2015, 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' judgment, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong

18 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*Year ended 31 December 2015*

| | Notes | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| REVENUE | 5 | **9,765,478** | 11,211,146 |
| Cost of sales | | **(9,207,165)** | (10,468,327) |
| Gross profit | | **558,313** | 742,819 |
| Other income and gains | 5 | **1,871,452** | 900,701 |
| Selling and distribution expenses | | **(132,683)** | (159,054) |
| Administrative expenses | | **(327,570)** | (297,710) |
| Other expenses | | **(27,849)** | (111,440) |
| Finance costs | 7 | **(618,937)** | (637,728) |
| Share of profit of an associate | 17 | **4,538** | 9,339 |
| PROFIT BEFORE TAX | 6 | **1,327,264** | 446,927 |
| Income tax expense | 10 | **(349,654)** | (139,914) |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **977,610** | 307,013 |
| Attributable to: | | | |
| Owners of the parent | | **979,347** | 308,243 |
| Non-controlling interests | | **(1,737)** | (1,230) |
| | | **977,610** | 307,013 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 12 | **RMB0.82** | RMB0.26 |

During the years ended 31 December 2015 and 31 December 2014, the Group did not have any other comprehensive income.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 (Restated) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 13 | **10,022,287** | 11,241,624 |
| Investment properties | 14 | **23,770** | 26,054 |
| Prepaid land lease payments | 15 | **254,871** | 262,801 |
| Other intangible assets | 16 | **739** | 945 |
| Investment in an associate | 17 | **74,477** | 78,326 |
| Available-for-sale investments | 18 | **1,298,000** | – |
| Prepayments | 21 | **300,000** | – |
| Deferred tax assets | 27 | **268,030** | 231,501 |
| Total non-current assets | | **12,242,174** | 11,841,251 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **4,257,635** | 5,456,868 |
| Trade receivables | 20 | **254,270** | 279,260 |
| Prepayments, deposits and other receivables | 21 | **210,537** | 575,398 |
| Pledged deposits | 22 | **58,945** | 81,342 |
| Cash and cash equivalents | 22 | **12,031,910** | 10,713,441 |
| | | **16,813,297** | 17,106,309 |
| Non-current assets classified as held for sale | 13 | **25,963** | 11,805 |
| Total current assets | | **16,839,260** | 17,118,114 |
| CURRENT LIABILITIES | | | |
| Trade payables | 23 | **1,023,422** | 1,234,010 |
| Other payables and accruals | 24 | **996,597** | 975,011 |
| Interest-bearing bank and other borrowings | 25 | **1,728,850** | 2,471,461 |
| Tax payable | | **710,696** | 466,847 |
| Deferred income | 26 | **38,289** | 19,401 |
| Total current liabilities | | **4,497,854** | 5,166,730 |
| NET CURRENT ASSETS | | **12,341,406** | 11,951,384 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **24,583,580** | 23,792,635 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 (Restated) |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 25 | 7,286,563 | 7,322,548 |
| Deferred income | 26 | 198,281 | 255,780 |
| Deferred tax liabilities | 27 | 3,552 | 3,829 |
| Total non-current liabilities | | 7,488,396 | 7,582,157 |
| Net assets | | 17,095,184 | 16,210,478 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 28 | 1,194,389 | 1,194,389 |
| Reserves | 29 | 15,830,558 | 14,943,537 |
| | | 17,024,947 | 16,137,926 |
| **Non-controlling interests** | | 70,237 | 72,552 |
| Total equity | | 17,095,184 | 16,210,478 |

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**Zhang Hongxia**
*Executive Director*

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**Zhao Suwen**
*Executive Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2015*

| | Attributable to owners of the parent | | | | | | |
|---|---|---|---|---|---|---|---|
| | Issued capital *RMB'000* | Capital reserve *RMB'000* | Statutory surplus reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* | Non-controlling interests *RMB'000* | Total equity *RMB'000* |
| At 1 January 2014 | 1,194,389 | 6,664,645 | 1,426,691 | 6,741,988 | 16,027,713 | 74,135 | 16,101,848 |
| Profit and total comprehensive income for the year | – | – | – | 308,243 | 308,243 | (1,230) | 307,013 |
| Final 2013 dividend declared | – | – | – | (198,030) | (198,030) | – | (198,030) |
| Dividend paid to non-controlling shareholders | – | – | – | – | – | (353) | (353) |
| Transfer from retained profits | – | – | 44,724 | (44,724) | – | – | – |
| At 31 December 2014 | 1,194,389 | 6,664,645 | 1,471,415 | 6,807,477# | 16,137,926 | 72,552 | 16,210,478 |

# Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

| | **Attributable to owners of the parent** | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Issued capital** ***RMB'000*** | **Capital reserve** ***RMB'000*** | **Statutory surplus reserve** ***RMB'000*** | **Retained profits** ***RMB'000*** | **Total** ***RMB'000*** | **Non-controlling interests** ***RMB'000*** | **Total equity** ***RMB'000*** |
| At 1 January 2015 | **1,194,389** | **6,664,645** | **1,471,415** | **6,807,477** | **16,137,926** | **72,552** | **16,210,478** |
| Profit and total comprehensive income for the year | **–** | **–** | **–** | **979,347** | **979,347** | **(1,737)** | **977,610** |
| Final 2014 dividend declared | **–** | **–** | **–** | **(92,326)** | **(92,326)** | **–** | **(92,326)** |
| Dividend paid to non-controlling shareholders | **–** | **–** | **–** | **–** | **–** | **(578)** | **(578)** |
| Transfer from retained profits | **–** | **–** | **114,788** | **(114,788)** | **–** | **–** | **–** |
| At 31 December 2015 | **1,194,389** | **6,664,645*** | **1,586,203*** | **7,579,710*** | **17,024,947** | **70,237** | **17,095,184** |

* These reserve accounts comprise the consolidated reserves of RMB15,830,558,000 (2014: RMB14,943,537,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **1,327,264** | 446,927 |
| Adjustments for: | | | |
| Finance costs | 7 | **618,937** | 637,728 |
| Share of profit of an associate | 17 | **(4,538)** | (9,339) |
| Bank interest income | | **(990)** | (32,892) |
| Gain on available-for-sale investments | 5 | **(49,726)** | – |
| Foreign exchange differences, net | 5 | **(39,713)** | – |
| Recognition of deferred income | 5 | **(38,611)** | (42,137) |
| Rental income from leasing investment properties | 5 | **(875)** | (800) |
| Gain on disposal of items of property, plant and equipment and prepaid land lease payments | 5 | **(11,625)** | (30,936) |
| Impairment of property, plant and equipment | 13 | **10,090** | 41,000 |
| Impairment of investment properties | 14 | **1,508** | – |
| Impairment of prepayments, deposits and other receivables | | **4,738** | – |
| Changes in allowance for trade receivables | 20 | **(2,387)** | 17,429 |
| Changes in provision against inventories | 19 | **(11,685)** | (9,013) |
| Depreciation of property, plant and equipment | 13 | **1,213,273** | 1,328,873 |
| Depreciation of investment properties | 14 | **776** | 776 |
| Recognition of prepaid land lease payments | 15 | **6,479** | 4,571 |
| Amortisation of other intangible assets | 16 | **206** | 159 |
| | | **3,023,121** | 2,352,346 |
| Decrease in inventories | | **1,210,918** | 991,621 |
| Decrease in trade receivables | | **56,338** | 253,204 |
| Decrease/(increase) in prepayments, deposits and other receivables | | **143,614** | (177,525) |
| Decrease in trade payables | | **(222,135)** | (803,398) |
| Increase in other payables and accruals | | **232,568** | 136,924 |
| Cash generated from operations | | **4,444,424** | 2,753,172 |
| Interest paid | | **(591,896)** | (597,007) |
| PRC corporate income tax paid | | **(142,611)** | (141,188) |
| Hong Kong profits tax refunded/(paid) | | **6,305** | (17,439) |
| Net cash flows from operating activities | | **3,716,222** | 1,997,538 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

*Year ended 31 December 2015*

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **1,332** | 34,908 |
| Gain on available-for-sale investments | | **49,726** | – |
| Dividends received from an associate | | **8,387** | 5,027 |
| Purchases of items of property, plant and equipment and additions to prepaid land lease payments | | **(373,708)** | (756,445) |
| Purchase of available-for-sale investments | | **(1,298,000)** | – |
| Proceeds from disposal of items of property, plant and equipment and prepaid land lease payments | | **54,813** | 11,368 |
| Decrease in pledged deposits | | **22,397** | 60,621 |
| Net cash flows used in investing activities | | **(1,535,053)** | (644,521) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of corporate bonds | 25(vii) | **–** | 2,970,000 |
| New bank loans | | **1,555,185** | 3,801,416 |
| Repayment of bank loans | | **(2,364,188)** | (7,416,197) |
| Dividends paid | | **(92,326)** | (198,030) |
| Dividends paid to non-controlling shareholders | | **(578)** | (353) |
| Net cash flows used in financing activities | | **(901,907)** | (843,164) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **1,279,262** | 509,853 |
| Cash and cash equivalents at beginning of year | | **10,713,441** | 10,210,689 |
| Effect of foreign exchange rate changes, net | | **39,207** | (7,101) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **12,031,910** | 10,713,441 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | 22 | **12,031,910** | 10,713,441 |

## 1. CORPORATE AND GROUP INFORMATION

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

During the year, the Group was principally engaged in the manufacture and sale of cotton yarn, grey fabric and denim.

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.

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Name | Place and date of registration/ incorporation and place of business | Legal status | Registered 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 |
| Shandong Luteng Textile Company Limited ("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 |
| 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 |
| Shandong Binteng Textile Company Limited ("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 |
| Weiqiao Textile (Hong Kong) Trading Company Limited ("Weiqiao (Hong Kong)") | Hong Kong 12 October 2011 | Limited liability company | HK$500,000 | 100 | Trading of textile raw materials and products |

## 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 ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Company Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investment, which has been measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell (Further details are contained 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 Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2015. 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 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 for subsidiaries above. 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)

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 revised standards for the first time for the current year's financial statements.

Amendments to *HKAS 19 Defined Benefit Plans: Employee Contributions*
*Annual Improvements to HKFRSs 2010-2012 Cycle*
*Annual Improvements to HKFRSs 2011-2013 Cycle*

The nature and the impact of each amendment is described below:

(a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- HKAS 16 *Property, Plant and Equipment* and HKAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- HKAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) *The Annual Improvements to HKFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- HKFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.

- HKAS 40 *Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there is no investment property acquired during the year and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the 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, which have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 9 | *Financial Instruments*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | *Investment Entities: Applying the Consolidation Exception*[1] |
| Amendments to HKFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[1] |
| HKFRS 14 | *Regulatory Deferral Accounts*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[2] |
| Amendments to HKAS 1 | *Disclosure Initiative*[1] |
| Amendments to HKAS 16 and HKAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[1] |
| Amendments to HKAS 16 and HKAS 41 | *Agriculture: Bearer Plants*[1] |
| Amendments to HKAS 27 (2011) | *Equity Method in Separate Financial Statements*[1] |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of HKFRSs[1] |

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

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively and are not expected to have any significant impact on the Group's financial statements.

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

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3.The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investment in an associate

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.

The Group's investment in an associate is 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.

The Group's share of the post-acquisition results and other comprehensive income of the associate are 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, 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 the associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

### Fair value measurement

The Group measures its available-for-sale investment 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.

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 |

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement** (continued)

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, financial assets, deferred tax 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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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

| | Estimated useful lives | Annual depreciation rates |
|---|---|---|
| Buildings | 10 to 40 years | 2.4% to 9.6% |
| Machinery and equipment | 5 to 14 years | 6.9% 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 buildings held to earn rental income, 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 financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment classified as held for sale are not depreciated.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The 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 of the Group are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful life of 10 years.

### Operating leases

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. 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:

***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 entrusted assets managed by the third-party asset management company.

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. Gain earned whilst holding the available-for-sale financial investments is reported as gain, and is recognised in profit or loss as other income and gains 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets** (continued)

***Available-for-sale financial investments*** (continued)

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.

**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 asset. 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.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is 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.

#### *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 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.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 and interest-bearing bank and other borrowings.

*Subsequent measurement*

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

*Loans and borrowings*

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

### 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.

### 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### Income tax

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

Current tax assets and liabilities 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 jurisdictions 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax (continued)

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 the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

### 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 or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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;

(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; and

(d) dividend income, when the shareholders' right to receive payment has been established.

### Pension scheme

The employees of the Group are required to participate in a central pension scheme operated by the local municipal government. 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.

### 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 are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies**

These financial statements are presented in Renminbi, which is the Company's functional 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 JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and 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.

**Judgements**

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

***Operating lease commitments – Group as lessor***

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

***Classification between investment properties and owner-occupied properties***

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND 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. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. An impairment of approximately RMB12 million for certain non-financial assets of the Group was charged to profit or loss in 2015 (2014: RMB41 million). Further details are contained in notes 13 and 14 to the financial statements.

***Deferred tax assets***

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2015 was RMB50 million (2014: RMB12 million). The amount of unrecognised tax losses at 31 December 2015 was RMB263 million (2014: RMB310 million). Further details are contained in note 27 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.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty** (continued)

***Impairment of trade receivables***

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers 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. An allowance of approximately RMB2 million for certain trade receivables of the Group was reversed and credited to profit or loss in 2015, while an impairment of approximately RMB17 million was charged to profit or loss in 2014. Further details are contained in note 20 to the financial statements.

***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. An impairment provision of the Group's inventories of approximately RMB12 million was reversed and credited to profit or loss in 2015 (2014: RMB9 million). Further details are contained in note 19 to the financial statements.

## 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 2015 and 2014 is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Cotton yarn | **3,322,472** | 3,719,738 |
| Grey fabric | **5,625,137** | 6,306,286 |
| Denim | **817,869** | 1,185,122 |
| | **9,765,478** | 11,211,146 |

### Geographical information

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

*Revenue from external customers*

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Mainland China | **7,013,379** | 6,491,950 |
| Hong Kong | **1,222,123** | 1,247,574 |
| Southeast Asia | **549,340** | 2,090,629 |
| East Asia | **498,965** | 743,209 |
| Others | **481,671** | 637,784 |
| | **9,765,478** | 11,211,146 |

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

### Information about a major customer

During 2015, revenue of approximately RMB1,376 million was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer. No revenue from transactions with a single customer accounted for 10% or more of the Group's revenue in 2014.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of textile products sold, after allowances for returns and trade discounts.

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

| | *Notes* | **2015** | 2014 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Revenue** | | | |
| Sale of textile products | | **9,765,478** | 11,211,146 |
| **Other income** | | | |
| Bank interest income | | **40,518** | 32,892 |
| Recognition of deferred income | *26* | **38,611** | 42,137 |
| Compensation from suppliers on the supply of sub-standard goods | | **13,210** | 22,154 |
| Government subsidies | | **–** | 890 |
| Gross rental income | | **875** | 800 |
| Others | | **16,627** | 14,219 |
| | | **109,841** | 113,092 |
| **Gains** | | | |
| Sale of electricity and steam | | **2,732,727** | 2,104,800 |
| Less: Cost thereon | | **(1,103,409)** | (1,348,127) |
| Gain on sale of electricity and steam | | **1,629,318** | 756,673 |
| Gain on available-for-sale investments | *18* | **49,726** | – |
| Foreign exchange differences, net | | **39,713** | – |
| Gain on sale of waste and spare parts | | **31,229** | – |
| Gain on disposal of items of property, plant and equipment and prepaid land lease payments | | **11,625** | 30,936 |
| | | **1,761,611** | 787,609 |
| | | **1,871,452** | 900,701 |

## 6. PROFIT BEFORE TAX

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

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **9,338,445** | 10,463,045 |
| Employee benefit expense (excluding directors', chief executive's and supervisors' remuneration *(note 8)*): | | | |
| Wages, salaries and other social insurance costs | | **2,378,483** | 2,516,437 |
| Pension scheme contributions* | | **201,909** | 195,791 |
| | | **2,580,392** | 2,712,228 |
| Depreciation of property, plant and equipment | *13* | **1,213,273** | 1,328,873 |
| Depreciation of investment properties | *14* | **776** | 776 |
| Amortisation of prepaid land lease payments | *15* | **6,479** | 4,571 |
| Amortisation of other intangible assets | *16* | **206** | 159 |
| Impairment of property, plant and equipment | *13* | **10,090** | 41,000 |
| Impairment of investment properties | *14* | **1,508** | – |
| Impairment of prepayments, deposits and other receivables | | **4,738** | – |
| Changes in allowance for trade receivables | *20* | **(2,387)** | 17,429 |
| Changes in provision against inventories | *19* | **(11,685)** | (9,013) |
| Auditors' remuneration | | **6,425** | 6,747 |
| Repairs and maintenance | | **299,178** | 292,424 |
| Research and development costs: | | | |
| Wages and salaries | | **35,384** | 36,400 |
| Consumables | | **38,717** | 33,998 |
| | | **74,101** | 70,398 |
| Minimum lease payments under operating leases | | **18,465** | 23,089 |
| Gain on disposal of items of property, plant and equipment and prepaid land lease payments | | **(11,625)** | (30,936) |
| (Gain)/loss on sale of waste and spare parts | | **(31,229)** | 45,516 |
| Gain on available-for-sale investments | | **(49,726)** | – |
| Bank interest income | | **(40,518)** | (32,892) |
| Recognition of deferred income | *26* | **(38,611)** | (42,137) |
| Compensation from suppliers on the supply of sub-standard goods | | **(13,210)** | (22,154) |
| Foreign exchange differences, net | | **(29,918)** | 9,122 |

* At 31 December 2015, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2014: Nil).

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | 2015<br>*RMB'000* | 2014<br>*RMB'000* |
|---|---|---|
| Interest on bank loans and corporate bonds | **609,142** | 628,606 |
| Foreign exchange differences, net | **9,795** | 9,122 |
| | **618,937** | 637,728 |

No interest was capitalised in 2015 (2014: Nil).

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's 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"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Fees | 3,643 | 3,685 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,072 | 438 |
| Pension scheme contributions | 80 | 80 |
| | 1,152 | 518 |
| | 4,795 | 4,203 |

### (a) Independent non-executive directors

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Mr. Wang Naixin | – | – |
| Mr. Chen Shuwen | 150 | 150 |
| Mr. Chan Wing Yau, George | 503 | 473 |
| | 653 | 623 |

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

### (b) Executive directors, non-executive directors and the chief executive

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Pension scheme contributions RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|---|
| **2015** | | | | |
| Executive directors: | | | | |
| Ms. Zhang Hongxia | 1,200 | 80 | 13 | 1,293 |
| Ms. Zhao Suwen | 600 | 70 | 12 | 682 |
| Ms. Zhang Yanhong | 600 | 68 | 7 | 675 |
| Mr. Zhang Jinglei | 300 | 63 | 12 | 375 |
| | 2,700 | 281 | 44 | 3,025 |
| Non-executive directors: | | | | |
| Mr. Zhang Shiping | 100 | – | – | 100 |
| Ms. Zhao Suhua | 100 | 58 | 12 | 170 |
| | 200 | 58 | 12 | 270 |
| Chief executive: | | | | |
| Mr. Wei Jiakun | – | 677 | 12 | 689 |
| | 2,900 | 1,016 | 68 | 3,984 |
| 2014 | | | | |
| Executive directors: | | | | |
| Ms. Zhang Hongxia | 1,200 | 79 | 12 | 1,291 |
| Ms. Zhao Suwen | 600 | 61 | 12 | 673 |
| Ms. Zhang Yanhong | 600 | 60 | 8 | 668 |
| Mr. Zhang Jinglei | 300 | 56 | 12 | 368 |
| | 2,700 | 256 | 44 | 3,000 |
| Non-executive directors: | | | | |
| Mr. Zhang Shiping | 100 | – | – | 100 |
| Ms. Zhao Suhua | 100 | 57 | 12 | 169 |
| | 200 | 57 | 12 | 269 |
| Chief executive: | | | | |
| Mr. Wei Jiakun | 72 | 70 | 12 | 154 |
| | 2,972 | 383 | 68 | 3,423 |

## 8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

### (c) Supervisors

| | Fees *RMB'000* | Salaries, allowances and benefits in kind *RMB'000* | Pension scheme contributions *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|---|
| **2015** | | | | |
| Mr. Lu Tianfu | **30** | **–** | **–** | **30** |
| Ms. Wang Wei | **30** | **–** | **–** | **30** |
| Ms. Wang Xiaoyun | **30** | **56** | **12** | **98** |
| | **90** | **56** | **12** | **158** |
| 2014 | | | | |
| Mr. Lu Tianfu | 30 | – | – | 30 |
| Ms. Wang Wei | 30 | – | – | 30 |
| Ms. Wang Xiaoyun | 30 | 55 | 12 | 97 |
| | 90 | 55 | 12 | 157 |

Mr. Wang Naixin, an independent non-executive director of the Company, has waived the remuneration. Except that, there were no other arrangements under which a director, the chief executive or a supervisor waived or agreed to waive any remuneration during the years ended 31 December 2015 and 2014.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors and the chief executive (2014: five directors), details of whose remuneration are set out in note 8 above.

## 10. INCOME TAX

Except for a subsidiary in Hong Kong which is subject to profits tax at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year ended 31 December 2015, all other entities within the Group are subject to corporate income tax at the statutory tax rate of 25% (2014: 25%).

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current | | |
| – Mainland China | **386,296** | 157,473 |
| – Hong Kong | **164** | 1,678 |
| Deferred *(note 27)* | **(36,806)** | (19,237) |
| Total tax charge for the year | **349,654** | 139,914 |

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:

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | ***RMB'000*** | **%** | *RMB'000* | *%* |
| Profit before tax | **1,327,264** | | 446,927 | |
| Tax at PRC jurisdiction statutory tax rate | **331,816** | **25.0** | 111,732 | 25.0 |
| Effect of the different income tax rate for a Hong Kong subsidiary | **(85)** | **–** | (71) | – |
| Profit attributable to an associate | **(1,135)** | **(0.1)** | (2,335) | (0.5) |
| Expenses not deductible for tax | **15,643** | **1.2** | 13,739 | 3.1 |
| Tax losses not recognised | **7,573** | **0.5** | 15,309 | 3.4 |
| Tax losses utilised from previous years | **(4,158)** | **(0.3)** | – | – |
| Adjustments in respect of current tax of previous periods | **–** | **–** | 1,540 | 0.3 |
| Tax charge at the Group's effective rate | **349,654** | **26.3** | 139,914 | 31.3 |

## 11. 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 ("CASBE") can only be distributed as dividends after making up prior years' cumulative losses, if any, and making allowance for the following statutory reserve funds, which cannot be used for purposes other than those created and non-distributable as cash dividends.

#### *(i) Statutory surplus reserve*

In accordance with the PRC Company Law and the respective companies' articles of association, the Company and its subsidiaries, except for Luteng Textile, Binteng Textile and Weiqiao (Hong Kong) are required to appropriate 10% of the annual statutory net profit (after offsetting any prior years' losses), determined in accordance with CASBE, 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 CASBE, to the statutory reserve funds for the years ended 31 December 2015 and 2014.

#### *(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 CASBE, 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.

## 11. PROFIT APPROPRIATIONS (continued)

### (b) Dividends

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final – RMB0.2534 (2014: RMB0.0773) per ordinary share | **302,658** | 92,326 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with China Accounting Standards for Business Enterprises; and (ii) the net profit determined in accordance with HKFRSs.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of RMB979,347,000 (2014: RMB308,243,000), and the weighted average number of ordinary shares of 1,194,389,000 (2014: 1,194,389,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2015 and 2014.

## 13. PROPERTY, PLANT AND EQUIPMENT

| | Buildings | Machinery and equipment | Others | Construction in progress | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 December 2015** | | | | | |
| At 31 December 2014 and at 1 January 2015: | | | | | |
| Cost | 5,515,100 | 15,351,966 | 165,102 | 10,517 | 21,042,685 |
| Accumulated depreciation and impairment | (905,946) | (8,792,529) | (102,586) | – | (9,801,061) |
| Net carrying amount | 4,609,154 | 6,559,437 | 62,516 | 10,517 | 11,241,624 |
| At 1 January 2015, net of accumulated depreciation and impairment | 4,609,154 | 6,559,437 | 62,516 | 10,517 | 11,241,624 |
| Additions | 33,090 | 18,292 | 2,275 | 11,785 | 65,442 |
| Disposals | (92) | (34,295) | (1,066) | – | (35,453) |
| Depreciation provided during the year | (160,066) | (1,039,478) | (13,729) | – | (1,213,273) |
| Impairment | – | (10,090) | – | – | (10,090) |
| Classified as held for sale | – | (25,963) | – | – | (25,963) |
| Transfers | 2,358 | 16,396 | – | (18,754) | – |
| At 31 December 2015, net of accumulated depreciation and impairment | 4,484,444 | 5,484,299 | 49,996 | 3,548 | 10,022,287 |
| At 31 December 2015: | | | | | |
| Cost | 5,550,448 | 14,831,213 | 165,796 | 3,548 | 20,551,005 |
| Accumulated depreciation and impairment | (1,066,004) | (9,346,914) | (115,800) | – | (10,528,718) |
| Net carrying amount | 4,484,444 | 5,484,299 | 49,996 | 3,548 | 10,022,287 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings | Machinery and equipment | Others | Construction in progress | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **31 December 2014** | | | | | |
| At 31 December 2013 and at 1 January 2014: | | | | | |
| 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 |
| At 1 January 2014, net of accumulated depreciation and impairment | 4,728,601 | 7,586,587 | 3,133 | 12,039 | 12,330,360 |
| Additions | 1,584,847 | 2,136,177 | 80,089 | 164,474 | 3,965,587 |
| Disposals | (1,451,587) | (2,034,733) | (5,891) | (153,604) | (3,645,815) |
| Depreciation provided during the year | (236,570) | (1,077,488) | (14,815) | – | (1,328,873) |
| Impairment | – | (41,000) | – | – | (41,000) |
| Classified as investment properties | (26,830) | – | – | – | (26,830) |
| Classified as held for sale | – | (11,805) | – | – | (11,805) |
| Transfers | 10,693 | 1,699 | – | (12,392) | – |
| At 31 December 2014, net of accumulated depreciation and impairment | 4,609,154 | 6,559,437 | 62,516 | 10,517 | 11,241,624 |
| At 31 December 2014: | | | | | |
| Cost | 5,515,100 | 15,351,966 | 165,102 | 10,517 | 21,042,685 |
| Accumulated depreciation and impairment | (905,946) | (8,792,529) | (102,586) | – | (9,801,061) |
| Net carrying amount | 4,609,154 | 6,559,437 | 62,516 | 10,517 | 11,241,624 |

## 13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2015, certain of the Group's buildings, machinery and equipment with a net carrying amount of approximately RMB1,495 million (2014: RMB1,624 million) were pledged to secure certain of the Group's bank loans (note 25(ii) and (v)).

The Group's idle buildings, machinery and equipment with aggregate carrying amount of RMB377 million as at 31 December 2015 (2014: RMB468 million) were valued individually by Wan Long (Shanghai) Assets Evaluation Co., Ltd. ("Shanghai Wan Long"), an independent professionally qualified valuer. Based on the valuation report, an impairment loss of RMB10 million (2014: RMB41 million) was charged to profit or loss in 2015.

The recoverable amounts of these idle machinery and equipment were the fair value less costs of disposal. The fair values were measured by using Level 2 valuation techniques within the fair value hierarchy, which were estimated with reference to the market prices of similar assets after considering the conditions of these assets.

### Non-current assets classified as held for sale

At 31 December 2015, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2015 and expected to be fulfilled in 2016.

At 31 December 2014, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2014, which were sold during 2015.

## 14. INVESTMENT PROPERTIES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Buildings** | | |
| At 1 January: | | |
| Cost | **32,327** | – |
| Accumulated depreciation and impairment | **(6,273)** | – |
| Net carrying amount | **26,054** | – |
| At 1 January, net of accumulated depreciation and impairment | **26,054** | – |
| Transfer from owner-occupied property, net of accumulated depreciation and impairment | **–** | 26,830 |
| Depreciation provided during the year | **(776)** | (776) |
| Impairment | **(1,508)** | – |
| At 31 December, net of accumulated depreciation and impairment | **23,770** | 26,054 |
| At 31 December: | | |
| Cost | **32,327** | 32,327 |
| Accumulated depreciation and impairment | **(8,557)** | (6,273) |
| Net carrying amount | **23,770** | 26,054 |

The investment properties of the Group are under operating leases and were valued by Shanghai Wan Long, an independent professionally qualified valuer, at 31 December 2015.

Under the discounted cash flow method, a fair value of RMB24 million (2014: RMB27 million) is estimated using assumptions regarding the benefits and liabilities of ownership over the assets' life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the assets. The exit yield is normally separately determined and differs from the discount rate.

## 15. PREPAID LAND LEASE PAYMENTS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount at 1 January | **269,126** | 185,791 |
| Additions | **–** | 88,467 |
| Disposals | **(1,297)** | (561) |
| Recognised during the year | **(6,479)** | (4,571) |
| Carrying amount at 31 December | **261,350** | 269,126 |
| Current portion included in prepayments, deposits and other receivables *(note 21)* | **(6,479)** | (6,325) |
| Non-current portion | **254,871** | 262,801 |

## 16. OTHER INTANGIBLE ASSETS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Software and a technology right** | | |
| Cost at 1 January, net of accumulated amortisation | **945** | 950 |
| Additions | **–** | 154 |
| Amortisation provided during the year | **(206)** | (159) |
| At 31 December | **739** | 945 |
| At 31 December: | | |
| Cost | **13,742** | 13,742 |
| Accumulated amortisation | **(13,003)** | (12,797) |
| Net carrying amount | **739** | 945 |

## 17. INVESTMENT IN AN ASSOCIATE

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Share of net assets | **74,477** | 78,326 |

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

Particulars of the associate are as follows:

| Name | Place and date of registration and place of business | Registered 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 |

The Group's shareholding in the associate is held through a wholly-owned subsidiary of the Company. The Group applied equity method to account for the Group's share of the operating results and of the net assets of the associate.

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Share of the associate's profit and total comprehensive income for the year | **4,538** | 9,339 |
| Carrying amount of the Group's investment in the associate | **74,477** | 78,326 |

## 18. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments represented the entrusted assets managed by CITIC-CP Asset Management Co., Ltd. (中信信誠資產管理有限公司), which were entrusted by the Group during the year ended 31 December 2015. According to the asset management agreement entered into between the Group and CITIC-CP Asset Management Co., Ltd., the investment scope of the entrusted assets shall be within the scope of (i) cash assets, such as cash, deposit, monetary fund, etc.; (ii) bonds financial assets, such as national debt traded on the exchanges or inter-bank, corporate bonds, etc.; and (iii) other financial assets with fixed income, such as asset securitisation products, financial products, etc. These investments were classified as available-for-sale financial assets and no other comprehensive income or loss was recognised for the year ended 31 December 2015, as the aggregate changes in fair value of such financial assets were immaterial since their respective acquisition dates.

## 19. INVENTORIES

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **728,196** | 642,631 |
| Work in progress | **470,840** | 566,090 |
| Semi-finished goods | **1,032,555** | 1,976,355 |
| Finished goods | **1,900,095** | 1,989,912 |
| Consumables | **54,737** | 64,932 |
| Raw materials in transit | **71,212** | 216,948 |
| | **4,257,635** | 5,456,868 |

At 31 December 2015, the carrying amounts of the Group's inventories were net of impairment provisions of RMB396 million (2014: RMB408 million).

## 20. TRADE RECEIVABLES

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Trade receivables | 270,902 | 298,279 |
| Impairment | (16,632) | (19,019) |
| | 254,270 | 279,260 |

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.

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:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Within 3 months | 253,818 | 270,327 |
| 3 to 6 months | 369 | 3,317 |
| 6 months to 1 year | 83 | 385 |
| Over 1 year | – | 5,231 |
| | 254,270 | 279,260 |

## 20. TRADE RECEIVABLES (continued)

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **19,019** | 1,590 |
| Impairment losses (reversed)/recognised | **(2,387)** | 17,429 |
| At 31 December | **16,632** | 19,019 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB17 million (2014: RMB19 million) with a carrying amount before provision of RMB17 million (2014: RMB22 million).

The individually impaired trade receivables relate to customers that were in financial difficulties or were in default in principal payment and none of the receivables is expected to be recovered.

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

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Neither past due nor impaired | **182,843** | 236,001 |
| Less than 2 months past due | **70,975** | 34,326 |
| More than 2 months past due | **452** | 5,913 |
| | **254,270** | 276,240 |

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.

Included in the Group's trade receivables are amounts due from the Group's Holding Company and fellow subsidiaries of RMB18,114,000 (2014: Nil) and RMB11,000 (2014: Nil), respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

## 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Prepayments to suppliers | 313,510 | 175,912 |
| Prepaid land lease payments, current portion *(note 15)* | 6,479 | 6,325 |
| Taxes recoverable | 130,746 | 327,850 |
| Interest receivables | 151 | 493 |
| Other receivables | 59,651 | 64,818 |
| | 510,537 | 575,398 |
| Portion classified as non-current assets | (300,000) | – |
| Current portion | 210,537 | 575,398 |

Included in the Group's other receivables are amounts due from the Group's Holding Company and fellow subsidiaries of RMB59,300,000 (2014: RMB24,613,000), which are repayable on credit terms similar to those offered to the major customers of the Group.

None of the above 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.

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cash and bank balances | 12,031,910 | 10,713,441 |
| Time deposits | 58,945 | 81,342 |
| | 12,090,855 | 10,794,783 |
| Less: Pledged time deposits: | | |
| – Letters of credit | (52,748) | (78,729) |
| – Letters of guarantee | (6,197) | (2,613) |
| Cash and cash equivalents | 12,031,910 | 10,713,441 |

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to RMB11,645 million (2014: RMB10,622 million). The RMB 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 RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods 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.

## 23. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **945,571** | 1,111,494 |
| 3 to 6 months | **26,526** | 47,206 |
| 6 months to 1 year | **2,751** | 5,307 |
| Over 1 year | **48,574** | 70,003 |
| | **1,023,422** | 1,234,010 |

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

Included in the Group's trade payables are amounts due to the Group's fellow subsidiaries of RMB4,655,000 (2014: RMB4,881,000), which are repayable on credit terms similar to those offered to the major suppliers of the Group.

## 24. OTHER PAYABLES AND ACCRUALS

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Payroll payable | **222,618** | 213,932 |
| Other taxes payable | **61,322** | 66,251 |
| Accruals | **83,595** | 85,821 |
| Other payables | **629,062** | 609,007 |
| | **996,597** | 975,011 |

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

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans | | | | | | |
| – Unsecured | 3.2-5.9 | 2016 | 1,113,350 | 3.8-6.8 | 2015 | 892,760 |
| – Secured | 4.6-4.9 | 2016 | 147,500 | 5.6-6.6 | 2015 | 1,158,416 |
| Current portion of long term bank loans | | | | | | |
| – Unsecured | – | – | – | LIBOR+3.8 | 2015 | 91,785 |
| – Secured | 5.5-6.6 | 2016 | 468,000 | 6.4-7.4 | 2015 | 328,500 |
| | | | 1,728,850 | | | 2,471,461 |
| **Non-current** | | | | | | |
| Bank loans | | | | | | |
| – Secured | 5.1-7.8 | 2017-2018 | 1,314,500 | 6.0-7.8 | 2016-2017 | 1,370,000 |
| Corporate bonds | | | | | | |
| – Unsecured | 5.9-7.4 | *note 25(v)* | 5,972,063 | 5.9-7.4 | *note 25(v)* | 5,952,548 |
| | | | 7,286,563 | | | 7,322,548 |
| | | | 9,015,413 | | | 9,794,009 |

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year | 1,728,850 | 2,471,461 |
| In the second year | 920,000 | 460,000 |
| In the third to fifth years, inclusive | 394,500 | 910,000 |
| | 3,043,350 | 3,841,461 |
| Corporate bonds repayable: | | |
| In the second year | – | 2,981,667 |
| In the third to fifth years, inclusive | 5,972,063 | 2,970,881 |
| | 5,972,063 | 5,952,548 |
| | 9,015,413 | 9,794,009 |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

*Notes:*

(i) Other than certain of the Group's bank loans in an aggregate amount of US$9 million, equivalent to RMB56 million, as at the end of the reporting period (2014: US$55 million, equivalent to RMB337 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB1,840 million (2014: RMB2,089 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB1,338 million (2014: RMB1,624 million) as at the end of the reporting period.

(iii) Certain of bank loans of Binzhou Industrial Park up to RMB70 million (2014: RMB140 million) were secured by certain of its trade receivables from the Company of approximately RMB100 million (2014: RMB201 million) as at the end of the reporting period, which were eliminated in the consolidated statement of financial position.

(iv) Certain of bank loans of Weihai Industrial Park of approximately RMB210 million (2014: RMB534 million) were guaranteed by the Company as at the end of the reporting period.

(v) Certain of bank loans of Weihai Industrial Park of approximately RMB90 million were guaranteed by the Company and were also secured by certain of the Company's buildings, machinery and equipment of an aggregate carrying value of approximately RMB157 million as at the end of the reporting period.

(vi) As at 31 December 2014, certain of bank loans of Weihai Industrial Park of approximately RMB94 million were guaranteed by the Company and were also secured by certain of its trade receivables from the Company of approximately RMB135 million, which were eliminated in the consolidated statement of financial position.

(vii) In October 2013 and November 2014, the Company issued two domestic corporate bonds each with a principal amount of RMB3 billion. These corporate bonds carry nominal interest rates of 7.00% and 5.50% per annum respectively, with denomination and issue price of RMB100 and periods of five years. The Company has the right to raise the nominal interest rate and the investors could sell back at the end of the third year. Subsequent to the completion of the issue, the corporate bonds were listed on the Shanghai Stock Exchange on 6 November 2013 and 26 November 2014 respectively.

## 26. DEFERRED INCOME

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At 1 January | 275,181 | 317,318 |
| Recognised as income during the year | (38,611) | (42,137) |
| At 31 December | 236,570 | 275,181 |
| Portion classified as current liabilities | (38,289) | (19,401) |
| Non-current portion | 198,281 | 255,780 |

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

## 27. DEFERRED TAX

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Deferred tax assets** | | |
| At 1 January | 231,501 | 212,542 |
| Credited to profit or loss during the year | 36,529 | 18,959 |
| At 31 December | 268,030 | 231,501 |
| **Deferred tax liabilities** | | |
| At 1 January | 3,829 | 4,107 |
| Credited to profit or loss during the year | (277) | (278) |
| At 31 December | 3,552 | 3,829 |
| Deferred tax credited to profit or loss *(note 10)* | 36,806 | 19,237 |

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

## 27. DEFERRED TAX (continued)

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax deductible loss | 49,676 | 12,190 |
| Provision against inventories | 99,114 | 102,035 |
| Impairment of trade receivables | 4,158 | 4,755 |
| Impairment of property, plant and equipment and investment properties | 23,979 | 24,949 |
| Government grants recognised as deferred income | 59,143 | 68,795 |
| Interest capitalisation on fixed assets, net of related depreciation | (4,168) | (4,513) |
| Difference in depreciation arising from different residual values of fixed assets recognised for tax and accounting purposes | 15,071 | 13,488 |
| Unrealised gains arising from intra-group sales | 17,655 | 8,602 |
| Others | 3,402 | 1,200 |
| At 31 December | 268,030 | 231,501 |
| **Deferred tax liabilities** | | |
| Interest capitalisation on fixed assets, net of related depreciation | 3,552 | 3,830 |
| At 31 December | 3,552 | 3,830 |

The Group has tax losses arising in Mainland China of RMB461 million (2014: RMB359 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 RMB263 million (2014: RMB310 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.

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

## 28. SHARE CAPITAL

| | 2015<br>RMB'000 | 2014<br>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.

## 29. RESERVES

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.

## 30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### Major non-cash transaction

In 2014, the Group entered into an assets swap agreement with the Holding Company, pursuant to which, the Group acquired the property, plant and equipment and land use right of a thermal power plant from the Holding Company, by transferring out its owned thermal power plants and also with a compensation of RMB532 million in cash.

The Group has preliminarily determined the fair values of the acquired and disposed thermal power assets of RMB4,263 million and RMB3,731 million, respectively, as at the end of December 2014 (transaction date), after taking reference of the valuation report dated 8 October 2014 with 31 August 2014 being the bench mark assessment date, issued by Shanghai Wan Long, and taking the effect of depreciation between the bench mark assessment date and the transaction date into consideration. The carrying amount of the disposed thermal power assets as at the transaction date was approximately RMB3,635 million and a gain on the disposal of RMB29 million was recorded into profit or loss, after considering related costs of disposal.

## 31. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31 December 2015 (2014: Nil).

## 32. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in notes 13, 22 and 25 to the financial statements.

## 33. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under an operating lease arrangement, with a lease term of three years.

At 31 December 2015, the Group had total future minimum lease receivables under the non-cancellable operating lease with the tenant falling due as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within one year | 800 | 800 |
| In the second to third years, inclusive | – | 800 |
| | 800 | 1,600 |

### (b) As lessee

The Group leases certain of its land and properties under operating lease arrangements. Leases for land are negotiated for terms of twenty years, and those for properties for terms of three years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Within one year | 17,680 | 18,465 |
| In the second to fifth years, inclusive | 69,459 | 69,773 |
| After five years | 75,281 | 92,634 |
| | 162,420 | 180,872 |

## 34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments at the end of the reporting period, principally for the purchase of machinery:

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Contracted, but not provided for | **3,800** | 6,880 |

## 35. 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, by reference to the prices and conditions offered to their major customers.

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

### (a) Transactions with related parties

| | **2015** | 2014 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The Holding Company: | | |
| Sale of textile products | **304,629** | 159,039 |
| Sale of electricity | **2,565,567** | 1,748,676 |
| Gross rental income | **800** | 800 |
| Expenses on land use rights and property leasing | **17,965** | 21,129 |
| Purchase of steam | **4,346** | – |
| Sale of textile products to fellow subsidiaries | **1,071,138** | 786,708 |
| Purchase of steam from a company of which a non-executive director of the Company is an indirect controlling shareholder | **13,592** | – |

## 35. RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with related parties (continued)

***Textile products supply agreement with the Holding Company***

On 21 October 2014 and 24 November 2014, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (Supply of Cotton Yarn, Grey Fabric and Denim)". According to the announcement and the circular, the Company announced that, on 21 October 2014, it renewed the cotton yarn, grey fabric and denim supply agreement dated 31 October 2011 with a period of three years commencing on 1 January 2015 (the "Renewed Supply Agreement"). The Renewed Supply Agreement agreed upon 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 supply agreement with the Holding Company***

The Company made an announcement and issued a circular on 1 November 2013 and 12 November 2013 respectively, to disclose that the Company entered into a new supply of excess electricity agreement (the "Renewed Supply of Excess Electricity Agreement") 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 those of the Supply of Excess Electricity Agreement entered into on 4 November 2010, except for the newly agreed maximum aggregate value.

Pursuant to the agreement, the Company will supply excess electricity to the Holding Group at a price of RMB0.50 per kWh (including VAT at the rate of 17%) or the price at which a power plant in Shandong Province would sell its electricity generated to the relevant power grid, whichever is higher. However, if any applicable mandatory price for the electricity is announced by the PRC government, the mandatory price would be adopted instead.

***Steam purchase agreement with the Holding Company and a company of which a non-executive director of the Company is an indirect controlling shareholder***

On 3 July 2015, the Company made an announcement to disclose that the Company and Binzhou Industrial Park entered into a steam supply agreement with the Holding Company and Binzhou Municipal Binbei New Material Co., Ltd. ("Binzhou Binbei"), a company of which a non-executive director of the Company, Mr. Zhang Shiping, is an indirect controlling shareholder. Pursuant to the agreement, the Company and Binzhou Industrial Park will purchase steam from the Holding Company and Binzhou Binbei for production use, at a price of RMB150 per ton (including VAT at the rate of 13%) and RMB170 (including VAT at the rate of 13%) per ton respectively, for the period from 3 July 2015 to 31 December 2017.

## 35. RELATED PARTY TRANSACTIONS (continued)

### (a) Transactions with related parties (continued)

***Lease agreements with the Holding Company***

**As lessee**

For the years ended 31 December 2015 and 2014, certain land use rights and properties of the Group were under lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The significant terms of the 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 1 February 2013 with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, was entered into with an annual rental of RMB600,000 for a building located at No. 1, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC.

## 35. 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 a 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, and the other clauses and terms remain unchanged. On 24 December 2014, the lease relating to the other part of the land was terminated.

(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 and was terminated on 24 December 2014.

(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.

### (b) In 2014, the Group entered into an assets swap agreement with the Holding Company, further details are included in note 30 to the financial statements.

## 35. RELATED PARTY TRANSACTIONS (continued)

### (c) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 35(a), the Group entered into sales agreements with certain fellow subsidiaries for sale commitments amounting to RMB19,680,000 (2014: RMB9,417,000), which are expected to be fulfilled in 2016.

### (d) Outstanding balances with related parties

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Due from related parties | | |
| The Holding Company | 77,414 | 24,613 |
| Fellow subsidiaries | 11 | – |
| Due to related parties | | |
| Fellow subsidiaries | 4,655 | 4,881 |

The balances with the Holding Company and fellow subsidiaries are unsecured, interest-free and usually have a repayment term of one month.

### (e) Compensation of key management personnel of the Group

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Short term employee benefits | 4,715 | 4,123 |
| Post-employment benefits | 80 | 80 |
| Total compensation paid to key management personnel | 4,795 | 4,203 |

Further details of directors', chief executive's and supervisors' emoluments are included in note 8 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.

## 36. 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:

| Financial assets | 2015 Loans and receivables RMB'000 | 2015 Available-for-sale financial assets RMB'000 | 2015 Total RMB'000 | 2014 Loans and receivables RMB'000 |
|---|---|---|---|---|
| Available-for-sale investments | – | 1,298,000 | 1,298,000 | – |
| Trade receivables | 254,270 | – | 254,270 | 279,260 |
| Financial assets included in prepayments, deposits and other receivables | 59,802 | – | 59,802 | 65,311 |
| Pledged deposits | 58,945 | – | 58,945 | 81,342 |
| Cash and cash equivalents | 12,031,910 | – | 12,031,910 | 10,713,441 |
| | 12,404,927 | 1,298,000 | 13,702,927 | 11,139,354 |

| Financial liabilities | 2015 Financial liabilities at amortised cost RMB'00 | 2014 Financial liabilities at amortised cost RMB'00 |
|---|---|---|
| Trade payables | 904,415 | 1,134,675 |
| Financial liabilities included in other payables and accruals | 935,275 | 908,760 |
| Interest-bearing bank and other borrowings | 9,015,413 | 9,794,009 |
| | 10,855,103 | 11,837,444 |

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Financial assets | | | | |
| Available-for-sale investments | **1,298,000** | – | **1,298,000** | – |
| Financial liabilities | | | | |
| Interest-bearing bank borrowings | **3,043,350** | 3,841,461 | **3,051,243** | 3,849,195 |
| Corporate bonds | **5,972,063** | 5,952,548 | **6,242,625** | 5,949,525 |
| | **9,015,413** | 9,794,009 | **9,293,868** | 9,798,720 |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the financial controller and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of available-for-sale investments and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of corporate bonds are based on quoted market prices. The Group's own non-performance risk for interest-bearing bank and other borrowings at 31 December 2015 was assessed to be insignificant.

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

*Assets measured at fair value*

**As at 31 December 2015**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) *RMB'000* | Significant observable inputs (Level 2) *RMB'000* | Significant unobservable inputs (Level 3) *RMB'000* | Total *RMB'000* |
| Available-for-sale investments | – | 1,298,000 | – | 1,298,000 |

The Group did not have any financial liabilities measured at fair value as at 31 December 2015. The Group did not have any financial assets or liabilities measured at fair value as at 31 December 2014.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

## 37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

**Fair value hierarchy** (continued)

***Liabilities for which fair values are disclosed:***

**As at 31 December 2015**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Interest-bearing bank borrowings | – | 3,051,243 | – | 3,051,243 |
| Corporate bonds | 6,242,625 | – | – | 6,242,625 |
| | 6,242,625 | 3,051,243 | – | 9,293,868 |

As at 31 December 2014

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) RMB'000 | Significant observable inputs (Level 2) RMB'000 | Significant unobservable inputs (Level 3) RMB'000 | Total RMB'000 |
| Interest-bearing bank borrowings | – | 3,849,195 | – | 3,849,195 |
| Corporate bonds | 5,949,525 | – | – | 5,949,525 |
| | 5,949,525 | 3,849,195 | – | 9,798,720 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, corporate bonds, available-for-sale investments 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 main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group does not have written risk management policies and guidelines. However, the Company's management periodically analyses and formulates strategies to manage the Group's exposure to financial risks. Generally, the Group introduces conservative strategies on its risk management.

### 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. At 31 December 2015, approximately 44% (2014: 55%) of the Group's interest-bearing bank borrowings bore interest at fixed rates.

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 equity.

| | (Decrease)/ increase in basis points | Increase/ (decrease) in profit before tax *RMB'000* | Increase/ (decrease) in equity *RMB'000* |
|---|---|---|---|
| **2015** | | | |
| RMB | **(50)** | **8,515** | **6,386** |
| RMB | **50** | **(8,515)** | **(6,386)** |
| 2014 | | | |
| RMB | (50) | 8,260 | 6,195 |
| RMB | 50 | (8,260) | (6,195) |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

The Group has currency exposures. Such exposures arise mainly from sales, purchases and bank loans of the Group in United States dollar. As at 31 December 2015, approximately 69% or US$27 million (2014: 81% or US$37 million) of the Group's trade receivables were denominated in United States dollars, whilst approximately 46% or US$73 million (2014: 57% or US$114 million) of the Group's trade payables and 2% or US$9 million (2014: 9% or US$55 million) of the Group's bank loans were denominated in United States dollars.

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

| | (Decrease)/ increase in United States dollar rate | Increase/ (decrease) in profit before tax | Increase/ (decrease) in equity |
|---|---|---|---|
| | *%* | *RMB'000* | *RMB'000* |
| **2015** | | | |
| If RMB strengthens against United States dollar | **(5)** | **(3,995)** | **(3,076)** |
| If RMB weakens against United States dollar | **5** | **3,995** | **3,076** |
| 2014 | | | |
| If RMB strengthens against United States dollar | (5) | 31,836 | 23,800 |
| If RMB weakens against United States dollar | 5 | (31,836) | (23,800) |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Credit risk

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

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposit and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

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. At the end of the reporting period, the Group's trade receivables from the Group's largest customer and the five largest customers accounted for 18% (2014: 18%) and 42% (2014: 49%) of the total trade receivables, respectively.

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

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 the use of bank loans and corporate bonds. The Group's policy is that not more than 50% of the borrowings should mature in any 12-month period. 19% of the Group's debts would mature in less than one year as at 31 December 2015 (2014: 25%) 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:

| | **Less than 3 months** *RMB'000* | **3 to less than 12 months** *RMB'000* | **1 to 5 years** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| **2015** | | | | |
| Trade payables | **476,934** | **427,481** | **–** | **904,415** |
| Financial liabilities included in other payables and accruals | **830,910** | **104,365** | **–** | **935,275** |
| Interest-bearing bank and other borrowings | **937,000** | **791,850** | **7,314,500** | **9,043,350** |
| Interest payment on bank and other borrowings | **38,253** | **384,629** | **226,733** | **649,615** |
| | **2,283,097** | **1,708,325** | **7,541,233** | **11,532,655** |

| | Less than 3 months *RMB'000* | 3 to less than 12 months *RMB'000* | 1 to 5 years *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| 2014 | | | | |
| Trade payables | 645,993 | 488,682 | – | 1,134,675 |
| Financial liabilities included in other payables and accruals | 807,203 | 101,557 | – | 908,760 |
| Interest-bearing bank and other borrowings | 753,233 | 1,718,228 | 7,370,000 | 9,841,461 |
| Interest payment on bank and other borrowings | 56,285 | 429,934 | 643,462 | 1,129,681 |
| | 2,262,714 | 2,738,401 | 8,013,462 | 13,014,577 |

## 38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity. 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:

| | **2015**<br>***RMB'000*** | 2014<br>*RMB'000* |
|---|---|---|
| Interest-bearing bank and other borrowings | **9,015,413** | 9,794,009 |
| Less: Cash and cash equivalents | **(12,031,910)** | (10,713,441) |
| Net debt | **(3,016,497)** | (919,432) |
| Total equity | **17,095,184** | 16,210,478 |
| Gearing ratio | **(17.6%)** | (5.7%) |

## 39. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2016, the Company entered into an assets acquisition agreement with Zouping Changshan Industry Co., Ltd. (鄒平長山實業有限公司) with a total consideration of RMB3,186,425,000 (including an amount of RMB300,000,000 that has been paid by the Company in 2015) and the Company will settle the payment by cash, by installments or in full, within ten (10) business days after the date of completion. The total amount of investment to be made by the Company is expected to be approximately RMB4,600,000,000, including the consideration under the assets acquisition agreement and the contractual obligations that are expected to be assumed and further performed by the Company for the completion of the construction of the whole project after the acquisition.

## 40. COMPARATIVE AMOUNTS

Due to the implementation of the Hong Kong Companies Ordinance (Cap. 622) during the current year, the presentation and disclosures of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current year's presentation and disclosures (details are contained in note 2.2 to the financial statements).

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2015<br>*RMB'000* | 2014<br>*RMB'000*<br>(Restated) |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment | 7,512,346 | 8,422,858 |
| Investment properties | 30,298 | 32,775 |
| Prepaid land lease payments | 83,381 | 86,698 |
| Other intangible assets | 739 | 945 |
| Investments in subsidiaries | 1,716,218 | 1,716,218 |
| Available-for-sale investment | 1,298,000 | – |
| Prepayments | 300,000 | – |
| Deferred tax assets | 71,392 | 81,525 |
| Total non-current assets | 11,012,374 | 10,341,019 |
| **CURRENT ASSETS** | | |
| Inventories | 3,401,511 | 4,830,297 |
| Trade receivables | 214,868 | 267,187 |
| Prepayments, deposits and other receivables | 1,262,429 | 962,227 |
| Pledged deposits | 55,217 | 69,673 |
| Cash and cash equivalents | 11,790,193 | 10,466,406 |
| | 16,724,218 | 16,595,790 |
| Non-current assets classified as held for sale | 25,963 | – |
| Total current assets | 16,750,181 | 16,595,790 |
| **CURRENT LIABILITIES** | | |
| Trade payables | 1,192,884 | 1,379,061 |
| Other payables and accruals | 677,789 | 670,975 |
| Interest-bearing bank and other borrowings | 1,301,350 | 1,560,045 |
| Tax payable | 665,778 | 421,543 |
| Total current liabilities | 3,837,801 | 4,031,624 |
| **NET CURRENT ASSETS** | 12,912,380 | 12,564,166 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 23,924,754 | 22,905,185 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing bank and other borrowings | 7,086,563 | 7,122,548 |
| Total non-current liabilities | 7,086,563 | 7,122,548 |
| Net assets | 16,838,191 | 15,782,637 |
| **EQUITY** | | |
| Issued capital | 1,194,389 | 1,194,389 |
| Reserves *(note)* | 15,643,802 | 14,588,248 |
| Total equity | 16,838,191 | 15,782,637 |

## 41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

*Note:*

A summary of the Company's reserves is as follows:

| | Capital reserve | Statutory surplus reserve | Retained profits | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Balance at 1 January 2014 | 6,673,380 | 1,372,234 | 6,293,426 | 14,339,040 |
| Total comprehensive income for the year | – | – | 447,238 | 447,238 |
| Final 2013 dividend declared | – | – | (198,030) | (198,030) |
| Transfer from retained profits | – | 44,724 | (44,724) | – |
| At 31 December 2014 | 6,673,380 | 1,416,958 | 6,497,910 | 14,588,248 |
| Total comprehensive income for the year | **–** | **–** | **1,147,880** | **1,147,880** |
| Final 2014 dividend declared | **–** | **–** | **(92,326)** | **(92,326)** |
| Transfer from retained profits | **–** | **114,788** | **(114,788)** | **–** |
| At 31 December 2015 | **6,673,380** | **1,531,746** | **7,438,676** | **15,643,802** |

## 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 18 March 2016.