百宏實業控股有限公司

BILLION INDUSTRIAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2299

ANNUAL REPORT 2018

Contents

Company Profile

Mission

We aspire to become the world's premier supplier of consumer products materials, providing eco-friendly products for the public.

Billion Industrial Holdings Limited (the "Company" or "Billion", together with its subsidiaries, the"Group"), is one of the largest developers and manufacturers of polyester filament yarns in China. The polyester filament yarns products of the Group are positioned at medium- and high-end markets in the PRC and overseas, its main products are drawn textured yarn ("DTY"), fully drawn yarn ("FDY"), and partially oriented yarn ("POY"), a majority of which have special physical features and functionalities such as cotton-like fibers, protection against ultraviolet rays, moisture and sweat-absorption, flame-resistant, abrasion-resistant, super-soft, super-shining and antibacterial. These products are widely used in the production of high-end fabrics and textiles for various consumer products, including apparel, footwear and home furnishings. Billion was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 May 2011.

Moreover, the Group's polyester facilities with an annual production capacity of 220,000 tons in Jinnan Industrial Zone were formally put into production on 30 September 2018. The equipment in the polyester facilities comprise 1 polymerisation production line and 2 FDY production lines, 10 POY production lines, 124 DTY texturing machines, intelligent spinning production equipment and intelligent logistics systems with an annual production capacity of 220,000 tons. With the new polyester facilities coupled with the Group's active development in the research of the new functional products aspect of its differentiated products that have higher added-value, the scale and competitiveness of the Group are further enhanced.

As at 31 December 2018, the Group's designed capacity of polyester filament yarns was 2,538,200 tons, of which the designed capacity of FDY and POY was 875,000 tons per year, while that of DTY was 633,200 tons per year. The combined designed capacity for DTY, FDY and POY was 1,508,200 tons per year, which made it the largest differentiated chemical fiber production base in Fujian Province.

Company Profile

As at 31 December 2018, the Group's designed capacity for polyester thin films was 255,000 tons per year, of which, the designed capacity of BOPET thin films was 182,500 tons per year, and was a large enterprise in manufacturing polyester thin films in China. The Group introduced the production lines and research and development equipment with advanced international standards for BOPET thin films from Dornier in Germany, for which the products are positioned at the high-end functional polyester thin films market in the People's Republic of China (the "PRC") applying in the segments including soft packaging, composite printing, electronic appliances, clothing and garments, safety and energy saving. The purification workshop management is implemented for the production workshops, meeting the stringent environmental requirements for producing different thin films. Also, the Group is vigorously developing new environmentally friendly polyester thin film products which can be applied in various segments.

In order to further expand overseas markets, the Group has established Billion Industrial (Vietnam) Co., Ltd. ("Billion Vietnam") in Vietnam, so as to develop the overseas polyester bottle chip business. We also set up the polyester filament yarns production facility and the polyester, POY and FDY production facilities in Vietnam. Currently, the project has entered into its construction phase, and it is expected that full operation of the facilities will commence by the end of 2019.

Furthermore, in view of the increasing consumption of polyester industrial yarns in the PRC in recent years, in particular, the accelerating expansion of the polyester industrial yarns market in Eastern China, the Group is investing approximately US$185 million to set up a production line for polyester industrial yarn products to expand this business. The total production capacity of the new manufacturing facilities will be approximately 250,000 tons per annum, and it is expected to gradually commence commercial production in the second quarter of 2020.

Billion's Journey

2003

- Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*（福建百宏聚纖科技實業有限公司）("Billion Fujian") was established in the People's Republic of China (the "PRC") by Billion Wise Industrial Limited ("Billion H.K.") as a wholly foreign-owned enterprise

2005

- Commencement of commercial production of polyester filament yarns in Fenglin Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, the PRC
- First production line of polyester filament yarns with designed capacity of approximately 200,000 tons per annum commenced production

2008

- Second production line of polyester filament yarns with designed capacity of approximately 260,000 tons per annum commenced production

2011

- Successfully listed on the Main Board of the Stock Exchange (Stock code: 2299) on 18 May 2011
- Continued the expansion of the new production site in Jinnan Industrial Zone, Jinjiang City. The new production site commenced production in November 2011, and had reached full production operation by the end of 2013
- Establishment of Fujian Billion High-tech Material Industrial Co., Ltd.*（福建百宏高新材料實業有限公司）("Billion High-tech") to develop new polyester thin film business. In November 2011, the Company announced further investment of RMB1.587 billion in polyester thin film business, and the investment in polyester thin film business reached RMB1.937 billion
- Awarded as a "State-Accredited Enterprise Technology Centre"

2012

- CECEP Chongqing Industry Co., Ltd*（重慶中節能實業有限責任公司）("CECEP Chongqing"), a subsidiary of China Energy Conservation and Environmental Protection Group*（中國節能環保集團公司）("CECEP"), became the single largest shareholder of the Company in September 2012
- Completion of phase I of polyester thin film plant, with designed capacity of 36,500 tons per annum
- Commenced sales of polyester thin film products

2013

- Commenced construction of the second to fifth production lines of polyester thin film business
- Billion Fujian was awarded as one of the "China's top 500 private enterprises in the manufacturing sector"

2014

- Billion Fujian was enlisted in the "2014 China Brand Value Evaluation"
- Billion Fujian was recognised as a "Key High-Tech Enterprise of the State Torch Program"

Billion's Journey

2015

- Billion Fujian was recognised as a "China Integrated Management System Standards Assessment Pilot Enterprise for the Integration of Informatisation and Industrialisation"
- Billion Fujian was awarded "Top Ten Export Brand of Quanzhou New 'Ocean Silk Road' "
- Billion Fujian was awarded "Quanzhou Intelligent Manufacturing Demonstration – Intelligent Plant"
- Billion Fujian was recognised as a "Fujian Province Intelligent Manufacturing Pilot and Demonstration Enterprise"

2016

- Billion Fujian was recognised as a "2016 National Technology Innovation Demonstration Enterprise"
- Billion Fujian was awarded "Advanced Group in National Textile Industry"
- The production expansion plan for polyester thin films was completed in full with the designed capacity of 255,000 tons per annum

2017

- Established Billion Vietnam to expand the overseas polyester bottle chip business with an annual production capacity of 250,000 tons, a polyester filament yarns production facility with an annual production capacity of 165,000 tons, and the polyester, POY and FDY production facilities with an annual production capacity of 220,000 tons. Total investment amounted to approximately US$220 million
- Expanded the new factory site in Jinnan Industrial Zone, Jinjiang City. The expansion plan of polyester filament yarns at the new factory site was to invest approximately US$222 million with an annual production capacity of approximately 220,000 tons. The new manufacturing facility was gradually put into commercial production in December 2017
- Billion Fujian was awarded as one of the "2017 China's top 500 private enterprises in the manufacturing sector"
- Billion Fujian was awarded "National 'Quality Benchmarking'"
- Awarded as a "2017 State-Accredited Enterprise Technology Centre"
- The project of Billion Vietnam was listed in the "2017 Sino-Vietnam Production Capacity Cooperation Projects", and was ranked No. 1

Billion's Journey

2018

- The new factory site in Jinnan Industrial Zone had polyester facilities with an annual production capacity of 220,000 tons, and was formally put into production on 30 September 2018. The polyester facilities comprised 10 spinning POY production lines and 2 FDY production lines, 124 DTY texturing machines as well as intelligent spinning production equipment and intelligent logistics systems
- Expanded the polyester industrial yarn products business and invested approximately US$185 million to set up a production line for polyester industrial yarn products. The designed total production capacity will be approximately 250,000 tons per annum. It is expected that the new manufacturing facilities will gradually commence commercial production in the second quarter of 2020
- Awarded the "Promising Corporate" of the "2017 Top 100 Hong Kong Listed Companies"
- Billion Fujian was enlisted the "2018 China Brand Value Award"
- Billion Fujian was awarded the Fifth "China's Top Ten Textile Science and Technology Award • New Technology Award"
- Billion Fujian became as one of the first batch of manufacturing enterprises being granted the "AEO Advanced Certification"
- Billion Fujian and Billion High-tech were listed as "2018 Provincial Leading Enterprises in Industrial and Informatisation in Fujian Province"
- Billion Fujian was again recognised as a "National Technology Innovation Demonstration Enterprise"
- Billion Fujian was listed in the "2018 Top 100 Enterprises in Fujian Province"

Corporate Information

Board of Directors

Executive Directors

Mr. Sze Tin Yau *(Co-chairman)*
Mr. Wu Jinbiao
(Chief executive officer)
Mr. Wang Li
(resigned on 14 January 2018)
Mr. Wu Zhongqin
(resigned on 1 June 2018)
Mr. Liu Jingui
(resigned on 1 June 2018)

Non-executive Director

Mr. Zeng Wu *(Co-chairman)*

Independent Non-executive Directors

Mr. Chan Shek Chi
Mr. Ma Yuliang
Mr. Shih Chun Pi
(appointed on 28 December 2018)
Mr. Lin Jian Ming
(resigned on 28 December 2018)

Board Committees

Audit committee

Mr. Chan Shek Chi *(Chairman)*
Mr. Ma Yuliang
Mr. Shih Chun Pi
(appointed on 28 December 2018)
Mr. Lin Jian Ming
(resigned on 28 December 2018)

Remuneration Committee

Mr. Chan Shek Chi *(Chairman)*
Mr. Sze Tin Yau
Mr. Ma Yuliang

Nomination Committee

Mr. Sze Tin Yau *(Chairman)*
Mr. Chan Shek Chi
Mr. Shih Chun Pi
(appointed on 28 December 2018)
Mr. Lin Jian Ming
(resigned on 28 December 2018)

Corporate Governance Committee

Mr. Sze Tin Yau *(Chairman)*
Mr. Wu Jinbiao
Mr. Wang Li
(resigned on 14 January 2018)
Mr. Wu Zhongqin
(resigned on 1 June 2018)
Mr. Liu Jingui
(resigned on 1 June 2018)

Company Secretary

Mr. Lai Wai Leuk

Authorised Representatives

Mr. Sze Tin Yau
Mr. Lai Wai Leuk

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

Hong Kong:

Unit 1501, Office Tower
Convention Plaza
No. 1 Harbour Road
Wanchai
Hong Kong

PRC:

Fenglin Industrial Zone
Longhu Town
Jinjiang City
Fujian
PRC

Legal Advisers

As to Hong Kong Law:
Luk & Partners
In Association with Morgan, Lewis & Bockius

As to PRC Law:
Tian Yuan Law Firm

Auditors

KPMG

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust
Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Share Registrar and Transfer Office

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

Principal Bankers

China Construction Bank
Corporation
Industrial Bank Co., Ltd.
Agricultural Bank of China
Holdings Limited

Company Website

www.baihong.com

Stock Code

2299

Financial Highlights

	For the year ended 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Operational Results			
Revenue	**8,602,033**	7,025,317	22.4%
Gross profit	**1,363,921**	1,013,322	34.6%
Profit from operations	**1,106,151**	696,280	58.9%
Profit for the year	**774,020**	516,143	50.0%

	As at 31 December		
	2018	2017	Change
	RMB'000	RMB'000	
Financial Position			
Non-current assets	**7,478,566**	5,868,436	27.4%
Non-current liabilities	**276,474**	169,121	63.5%
Current assets	**4,980,967**	4,606,675	8.1%
Current liabilities	**6,244,555**	4,820,126	29.6%
Net current liabilities	**1,263,588**	213,451	492.0%
Total equity	**5,938,504**	5,485,864	8.3%
Earnings per Share (RMB)	**0.36**	0.24	
Interim dividend (HK cent) (Note 1)	**4.70**	5.90	
Final dividend (HK cent) (Note 2)	**5.70**	8.40	
Key Ratio Analysis			
Gross profit margin	**15.9%**	14.4%	
Operating profit margin	**12.9%**	9.9%	
Net profit margin	**9.0%**	7.3%	
Returns on equity (Note 3)	**13.0%**	9.4%	
Current ratio (Note 4)	**0.80**	0.96	
Gearing ratio (Note 5)	**109.8%**	90.9%	

Notes:

1: The interim dividend of HK4.7 cents per share in cash was paid on 5 October 2018

2: The final dividend of HK5.7 cents per share in cash will be paid on 30 April 2019

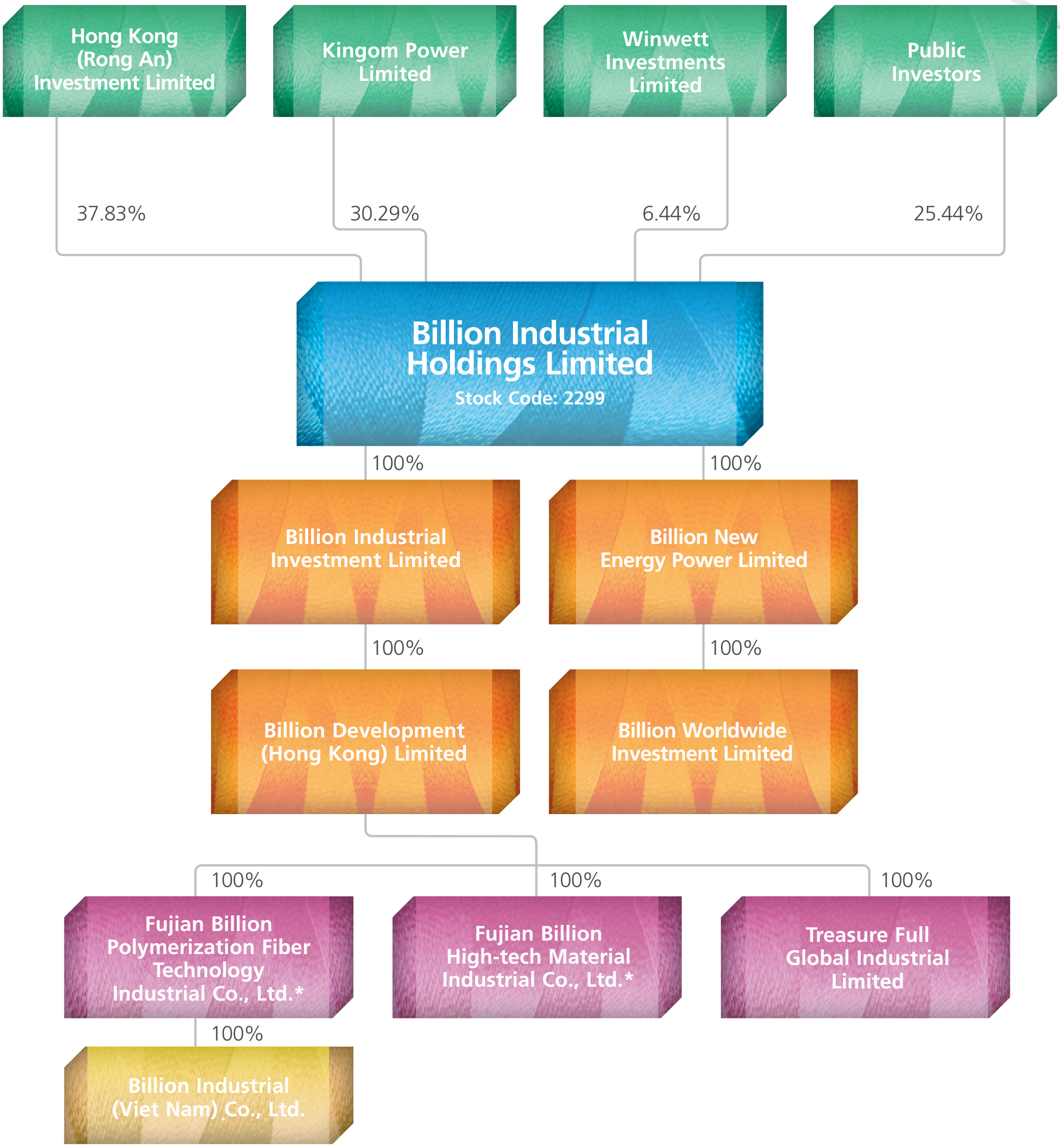
3: Returns on equity: Profit for the year divided by total equity

4: Current ratio: Current assets divided by current liabilities

5: Gearing ratio: Total liabilities divided by total equity

Company Structure

as at 31 December 2018



Note:		Place of incorporation	Place of operation
	Billion Industrial Holdings Limited	: Cayman Islands	Hong Kong
	Billion Industrial Investment Limited	: British Virgin Islands	Hong Kong
	Billion New Energy Power Limited	: British Virgin Islands	Hong Kong
	Billion Development (Hong Kong) Limited	: Hong Kong	Hong Kong
	Billion Worldwide Investment Limited	: Hong Kong	Hong Kong
	Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*	: PRC	Fujian, PRC
	Fujian Billion High-tech Material Industrial Co., Ltd.*	: PRC	Fujian, PRC
	Treasure Full Global Industrial Limited	: British Virgin Islands	Hong Kong
	Billion Industrial (Viet Nam) Co., Ltd.	: Vietnam	Vietnam

* *For identification purposes only*

Chairman's Statement

The polyester plant of the Group located in Jinnan Industrial Zone was put into operation on 30 September 2018, indicating the further leap by the Group in its development.

Sze Tin Yau
Co-chairman of the Board

To all shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I am pleased to present the results of the Group for the year ended 31 December 2018.

About 17 years ago, Mr. Wu Jinbiao, the Company's other founder, and I jointly founded Billion Fujian with zest and vigour. Under the operation philosophy of "creating green products" by adhering to the mission of "providing eco-friendly products for the public, aspiring to be the world's premier supplier of consumer product materials", we developed our polyester filament yarns business with professional technology and serious attitude. Since then, we have gradually developed from a polyester filament yarns manufacturer with designed capacity of 200 thousand tons to the largest polyester filament yarns enterprise in Southern of China. With the support of all our shareholders, the Company was successfully listed on the Main Board of the Stock Exchange on 18 May 2011, which opened a new page in the development of the Group.

Besides strengthening our research and development and investment continuously, the Company has always focused on how to achieve profitability and return by relying on our technology-based products and new businesses. Therefore, we invested strategically in the functional environmentally-friendly polyester films business in 2012. In 2017, the Group had smoothly completed its production capacity expansion plan to reach the 255,000 tons per annum functional environmentally friendly polyester films capacity. During the year under review, both our sales volume and amount of polyester film products had increased significantly and became one of the driving forces of our continuous growth in sales.

In addition, the polyester plant of the Group located in Jinnan Industrial Zone was put into operation on 30 September 2018, with an annual production capacity of 220,000 tons. It comprises 10 spinning POY production lines, 2 FDY production lines, 124 texturing machines, spinning intelligent production equipment and logistic intelligent system. At present, the polyester filament yarns business expansion project is in full operation, indicating the further leap by the Group in its development.

Despite experiencing a slowdown in global economic growth in 2018, China's textile industry maintained a steady and increasing trend overall. As intelligence manufacturing related technologies continued to be vigorously promoted in the textile sector, the textile industry has shifted from stand-alone machine intelligentisation to system digitalisation, automation and intelligent development. As the largest polyester filament yarns manufacturer in Southern China and one of China's top 500 private enterprises, the Group has always been focusing on integrating differentiated and functional polyester fibers with high quality to meet the needs of domestic and foreign branded companies, and strengthening its investment in brand building as well as increasing products brand added values to develop and build corporate soft power.

The Group completed the construction of the "polyester filament yarns melt-direct spinning intelligent manufacturing digital workshop" with intelligent manufacturing integrated standardisation and new mode application and successfully passed the inspection and acceptance. It satisfied the intelligent and digitalisation requirements for the design, process, manufacturing, testing, logistics and other aspects of differentiated and functional polyester filament yarn products in the sports, leisure, home textiles and garments segments, and increased the proportion of functional differentiated products. In addition, the Group had built and developed a digital workshop innovation system independently in the textile industry, which played a demonstrating and leading role in the industry. This system may potentially enhance the international competitiveness of China in fiber manufacturing and consolidate her dominant position in the polyester industry. At the same time, the system can be replicated, promoted and applied among the industries.

The Group designed and developed independently its "polyester filament yarns package external appearance quality online intelligent detection system" technology, on-line inspection system and equipment as well as online tensile force supervision and monitoring system, and achieved a breakthrough in the research and development of key technology and equipment to address the shortcomings for core intelligent manufacturing in the industry, which has substantially improved the digitalised intelligent manufacturing standard and product quality of polyester filament yarns production. It is the first time for the Group to apply the machine vision intelligent detection technology to external appearance inspection of filament yarns package, and develop the online intelligent detection system for the filament yarns package external appearance to achieve continuous, efficient and intelligent online detection to replace manual operation. The system is running smoothly with vast market prospects.

Billion Fujian has been recognised as State Enterprise Technology Centre, High-Tech Enterprise and Innovation Demonstration Enterprise for years, while its technology centre optimises the portfolio of segmented research and development capability through constant integration of our technological resources to establish a high quality research and development team, and put in place an enterprise technology innovative system with the technology center as the core, relatively centralised research and development strength, professional technical support and accelerating commercialisation of research achievements.

Chairman's Statement

We have always paid attention to upstream resources, tracked and kept technologies for upstream raw materials, such as renewable materials, biodegradable materials, bio-based materials, as well as raising the proportion of recyclable products. Moreover, the Group actively performed social responsibilities and co-operated with Jinjiang Chuanghui Photovoltaic Company Limited*（晉江創惠光伏有限公司）to utilise the idle rooftop of our plants as the photovoltaic power generation system, which enables the plant rooftop to become a clean photovoltaic power generation station. The special heat insulation effect of the roof solar energy panels can reduce electricity usage for air conditioners in summer, whereby saving energy and reducing consumption.

Through introducing the strategic partner Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An"), a substantial shareholder of the Company and a wholly-owned subsidiary of CECEP Chongqing, which is in turn a subsidiary of CECEP, the largest state-owned enterprise in the PRC specialising in energy-saving and environmental protection projects, the relationship between the Group and CECEP has become closer in terms of co-operation opportunities and synergy. By adhering to the vision of "aspiring to be the world's premier supplier of consumer product materials, providing eco-friendly products for the public", the Group implemented the operation philosophy of "creating green products" and continued to enhance the development of differentiated chemical fiber and functional environmentally-friendly polyester thin film products.

The Group continued to endeavour to intensify its innovation facilitation and enhancing new market expansion. By leveraging its established brand position in the same sector, its original marketing platform as well as its existing supply chain, sales channels and customer resources, the Group has delivered quality products with efficient after-sales service. And based on national planning and policies for the chemical fiber industry and polyester thin films industry and in order to grasp the opportunities brought by "The Belt and Road", the Group established Billion Vietnam in Vietnam to develop the polyester bottle chip business, polyester filament yarns production facility, and the polyester, POY and FDY production facilities in Vietnam. Currently, the project has entered into its construction phase. It is expected that full operation of the facilities will commence by the end of 2019. Upon completing the expansion project, the overseas business of the Group will enjoy a healthier long-term and sustainable development.

Chairman's Statement

Furthermore, in view of the increasing consumption of polyester industrial yarns in the PRC in recent years, in particular, the accelerating expansion of the polyester industrial yarns market in Eastern China, to enable the Group to enjoy the growth in this market by leveraging on its existing scale and expertise in producing polyester yarn products, we are investing approximately US$185 million to set up a production line for polyester industrial yarn products to expand this business. The total production capacity of the new manufacturing facilities will be approximately 250,000 tons per annum. The investment will include purchase of land and construction of a new factory with a total floor area of approximately 90,000 square meters, and procurement of 0.25 million tons of polyester device, SSP solid phase polymerisation device, the production line of polyester industrial yarns, energy and environmental protection and supporting device. The new manufacturing facilities are expected to gradually commence commercial production in the second quarter of 2020. We believe these new investments will further expand the size of the Company, benefit the Group and bring considerable financial returns to the shareholders.

The Group has all along been adhering to the Jinjiang entrepreneurial spirit of "taking the lead and eager to win" to expand its business reach, upgrade its equipment, optimise its production process, and become the leader in boosting its industrial transformation and upgrade and developing the textile and chemical fiber industry vigorously. Billion Fujian, a subsidiary of the Company, is one of the "China's top 500 private enterprises",and was also listed as the "2018 Top 100 Enterprises in Fujian Province". Moreover, the Company was also awarded the "Promising Corporate" of the "2017 Top 100 Hong Kong Listed Companies". These honors were market's affirmation of the Group's achievements and also the driving force to encourage and urge the management of the Group to further improve its corporate management and increase its shareholder value.

Finally, on behalf of the Board, I hereby wish to thank all our shareholders and business partners for their trust on us and for investing in the future of the Group. The management of the Group and I will continue to lead the Group to move forward and work diligently to further create value for our shareholders, customers, and employees, and strive to bring better returns for all shareholders.

Sze Tin Yau
Co-chairman of the Board
28 February 2019

Production Sites

Production Site A and B

Situated in the Fenglin Industrial Zone, Longhu Town, Jinjiang City, Fujian Province, PRC

Production Site C and D

Located at Jinnan Industrial Zone, approximately two kilometers away from the production site in Fenglin Industrial Zone

Production Site E

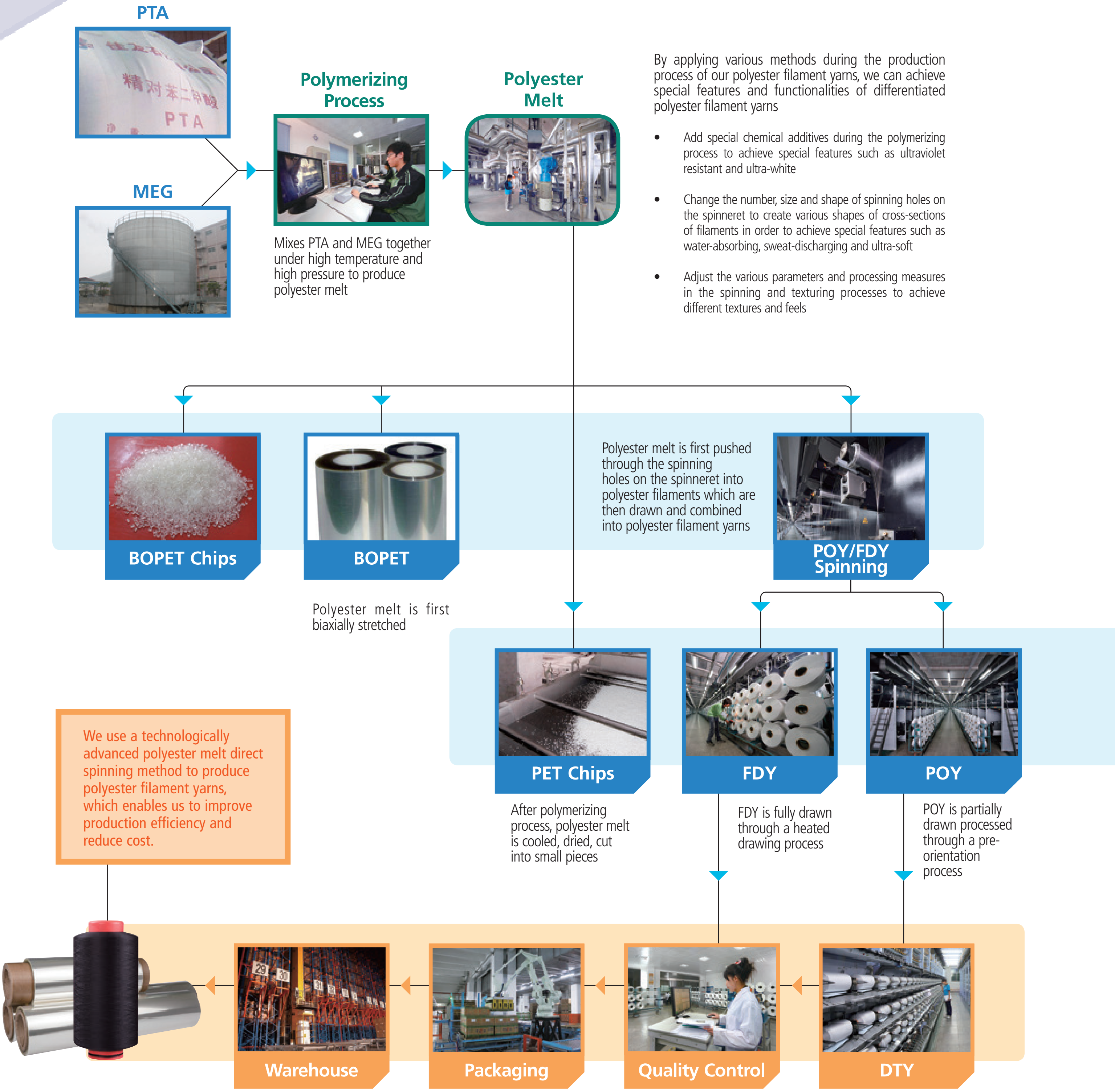
Located at Jinnan Industrial Zone, approximately two kilometers away from the production site in Fenglin Industrial Zone

Production Sites

Designed capacity as at 31 December 2018:

FDY+POY	:	875,000 tons per year
DTY	:	633,200 tons per year
BOPET	:	182,500 tons per year
BOPET Chips	:	72,500 tons per year

Production Processes of Polyester Filament Yarns & Polyester Thin Films



Note: PTA represents purified terephthalic acid
MEG represents mono ethylene glycol
PET represents polyethylene terephthalate
BOPET represents biaxially-oriented polyethylene terephthalate

Management Discussion and Analysis

CHANGES IN MACRO-ECONOMIC ENVIRONMENT

In 2018, significant slowdown was seen in global economic growth, of which, major economies especially USA, imposed tariffs, while other countries reacted with retaliatory tariffs. The rising trend of international trade protectionism has implied growing uncertainty in trade policies which in turn will exert pressure on future investments. Nevertheless, the world's two largest economies still recorded relatively impressive growth rates. As the world's largest economy, USA continued to perform strongly last year. As for China, after 30 years of phenomenal growth, its growth rate continued the momentum of "making progress while maintaining stability". According to the National Bureau of Statistics of the PRC, China's GDP exceeded RMB90.0 trillion in 2018, representing a growth of 6.6%, well enough to drive the improvement of Chinese people's average living standard.

From the perspective of development conditions, China has accumulated a solid material foundation, possesses are of the world's most complete industrial system, strong scientific and technological innovation capabilities, abundant human and land resources, and a relative higher total savings rate. In 2018, China's economic growth had slowed down, however, its economic development still enjoyed solid support. The Sino-US trade frictions continued to ferment and escalate, international economic and trade relationship are getting more and more complicated, and with global demands slowdown, the consumer market will be the main growth driver of China's economy in future. According to data from the National Bureau of Statistics of the PRC, in 2018, the ultimate consumption in China contributed 76.2% to China's GDP growth, the continuous promotion of domestic demand became an important momentum in driving its economic growth. The retail sales of apparel, footwear, hats and textile products amounted to RMB1.3707 trillion in 2018, representing a year-on-year growth of 8.0%, among which, the sales in December 2018 was RMB154.1 billion, representing a year-on-year increase of 7.4%. The escalation of the Sino-US competition has extended from trade war to other wider segments. The differences in politics, ideology, economic system and other aspects between China and the USA will have complicated and long-term impact on their competition.

INDUSTRY REVIEW

In 2018, China's textile industry maintained a steady and increasing trend overall. Although it was affected by unfavorable factors such as Sino-US trade frictions, with the successive launching of government policies to support economy development, the positive impact gradually emerged. The overall industry operation went well with stable growth in production and sales. The textile industry responded actively to market changes in accelerating the pace of scientific and technological research and development, made adjustment and transformation, and achieved gratifying results in terms of equipment intelligence, industry self-discipline and corporate management standards. In this year, with the rapid development of intelligent manufacturing and obvious trend of industrial transfer, development opportunities were emerging in the industry. The intelligentisation has become an inevitable trend for future textile machinery development. As intelligence manufacturing related technologies continued to be vigorously promoted in the textile sector, the textile industry has shifted from stand-alone machine intelligentisation to system digitalisation, automation and intelligent development.

On the other hand, China has become an important production base for global polyester thin films products. With the constant application expansion of polyester thin films in downstream industry, high-end, functionalization and diversification had become the development direction for polyester thin films industry. The integration of polyester filament yarns and polyester thin films supply-side capacity, orderly industry supply and stable increase in price gave a continuous promising outlook.

BUSINESS REVIEW

Stable growth in the Group's sales amount

The Group enjoyed scalable cost advantages through introducing large-scale and advanced production equipment. Most of our key equipment are imported from Germany and Japan which are of international first-class equipment standards. High quality equipment provides the Group with strong guarantee of both product innovation and technology innovation. As the market demand for the Group's products remained strong, the sales of the Group recorded a stable growth during the year under review.

The prominent research and development as well as our innovative capability are the foundation of our sustainable development. We emphasize on and persist to pursuing the technology innovation approach of a combination of "Production, Learning, Research and Application". Aiming at "technology innovation and improving competitive strength", the Group formulates the deepened reform proposal through technology improvement, technology innovation, product mix optimisation and recruiting innovative talents, and strives to research and develop new products and enhance product added value, as well as improving brand values and market competitiveness of the Company. Through our strong research and development team, the Group continued to intensify the co-operation with colleges and institutions, form a multi-disciplinary project research and development chain, and obtain patent and proprietary technology results, as well as vigorously support the implementation of the differentiated operating philosophy and is committed to improving product quality and developing differentiated products diversity.

The Group has a research and development team, comprising over 600 senior technicians, to develop new products under a market-oriented approach. The Group also has a sizable quality control team equipped with the world's advanced testing facilities to ensure stringent product quality and personalized quality service. During the year under review, the Group's differential products accounted for 68.5% of its total revenue. Such a high rate ensures our market competitiveness and is also a key factor contributing to the steady growth of the Group's sales turnover.

Intelligent and automatic production technology

As the largest polyester filament yarns manufacturer in Southern China, we are selected as the "innovative enterprise" under the technological and innovative projects of Fujian Province. By relying on technology innovation, the Group strived to establish a digitalised and intelligentised automatic chemical fiber production workshop, and become the industry front runner of realising the full process intelligent automatic production. By leveraging on digitalisation, networking and modularization of automatic equipment, the Group keeps on improving its products' quality and production volume.

The Group owns the largest differentiated chemical fiber production base in Southern China. It is also the first enterprise in Fujian Province to adopt the world's advanced melt-direct spinning differentiated chemical fiber production line and possesses the industry leading spinning and texturing equipment and technology. The Group completed the construction of the "polyester filament yarns melt-direct spinning intelligent manufacturing digital workshop" with intelligent manufacturing integrated standardisation and new mode application which has successfully passed the inspection and acceptance. We achieved total process digital simulation optimisation and tracking in production research and development, production control, quality management, energy consumption control and logistics sales, improved production efficiency, lowered corporate cost, reduced defective product rate, shortened research and development cycle and increased energy utilisation rate.

Furthermore, the Group designed and developed independently its "polyester filament yarns package external appearance quality online intelligent detection system" technology, on-line inspection system and equipment as well as online tensile force supervision and monitoring system, and achieved a breakthrough in the research and development of key technology and equipment to address shortcomings for core intelligent manufacturing in the industry, which has substantially improved the digitalised intelligent manufacturing standard and product quality of polyester filament yarns production. This technological achievement was accredited by experts during the year under review and is recognised to reach international leading standard. It is the first time for the Group to apply the machine vision intelligent detection technology to external appearance inspection of filament yarns package, and develop the online intelligent detection system for the filament yarns package external appearance to achieve continuous, efficient and intelligent online detection to replace manual operation. Since its application, the system has been running smoothly. It has achieved sound economic and social benefits with vast market prospects.

Management Discussion and Analysis

The intelligent logistics and warehousing system of the Group mainly comprises spinning automatic doffing, automatic packaging, automatic stereoscopic warehouse, transportation system, electronic control system and computer information system. The production information can be intelligently and automatically identified, tracked, categorized, stored and managed, such that the production operation can be completed in an intelligent and fully automated manner. The Group enjoyed scalable cost advantages through introducing large-scale and advanced production equipment. Most of our key equipment are imported from Germany and Japan and are of international first-class equipment standards. High quality equipment provides the Group with strong guarantee of product innovation and technology innovation. In addition, the Group introduced the production lines and research and development equipment for BOPET thin films from Dornier in Germany. All polyester thin film production lines of the Group are equipped with high levels of automation with purification workshop management implemented for the entire workshop, meeting the stringent environmental requirements for the production of various thin films.

During the year under review, the Group's research and development expenses amounted to RMB274,935,000, representing 3.2% of its revenue. Our research and development efforts mainly focus on improving product quality, and production efficiency, and enhancing our innovation capability in every aspect from chemical fiber to textile fabrics.

Market development

The Group has all along been paying great attention to marketing channel expansion and customer services. Our flexible sales strategies enable us to understand market situations in time, focus on customers' experience and timely communicate the feedback from customers to the technology and production center, thus ensuring bilateral interaction and providing fast and efficient product after sales services. While consolidating our market share in Fujian and Guangdong Provinces, we have also strived to develop the international markets and continued to improve our response to the market whilst expanding the emerging markets. According to the feedback of downstream users in the emerging markets, we made functional improvement and technology upgrade to our existing product lines with suitable marketing strategy, strengthened quality control on export products, and maintained cost advantages. The Group's export sales for the year under review increased by RMB106,449,000 or 10.3% as compared to the same period in 2017, which represented a further increase in brand popularity and market share in overseas markets.

By endeavoring to intensify its innovation facilitation and enhance new market expansion, as well as integrating with national planning and policies for the chemical fiber industry and polyester thin films industry and the opportunities brought by "The Belt and Road", the Group established Billion Vietnam in Vietnam to develop the polyester bottle chip business, polyester filament yarns production facility, and the polyester, POY and FDY production facilities in Vietnam. Currently, the project has fully entered into its construction phase. It is expected that full operation of the facilities will commence by the end of 2019.

Production capacity expansion

The polyester plant of the Group located in Jinnan Industrial Zone was put into operation on 30 September 2018, with an annual production capacity of 220,000 tons. It comprises 10 spinning POY production lines, 2 FDY production lines, 124 texturing machines, spinning intelligent production equipment and logistic intelligent system. At present, the polyester filament yarns business expansion project is in full operation, indicating the further leap by the Group in its development.

The Group is currently investing approximately US$222 million in Vietnam to expand the polyester bottle chip business, polyester filament yarns production facility, and the polyester, POY and FDY production facilities, and is expected to go into full operation by the end of 2019. Upon completing the expansion project, the overseas business of the Group will enjoy a healthier long-term and sustainable development.

Furthermore, in view of the increasing consumption of polyester industrial yarns in the PRC in recent years, in particular, the accelerating expansion of the polyester industrial yarns market in Eastern China, the Group will invest approximately US$185 million to set up a production line for polyester industrial yarn products to expand this business. The total production capacity of the new manufacturing facilities will be approximately 250,000 tons per annum and it is expected to gradually commence commercial production in the second quarter of 2020.

On 31 December 2018, the designed capacity of FDY and POY of the Group was 875,000 tons per year, the designed capacity of DTY was 633,200 tons per year, and the designed capacity for polyester thin films was 255,000 tons per year, of which the designed capacity of BOPET thin films was 182,500 tons per year.

Product research and development

The management team of the Group applied scientific management software to (i) achieve networking and informatization management during the course of production; (ii) arrange production allocation among various products; and (iii) deploy equipment between production and research and development to maximise the usage of production capacity. The scientific production management process enhanced the production efficiency of the Group, which enables the Group to constantly launching new products in time targeting at market demand with a view to increase the strengths of product differentiation.

The Group has strong scientific research strengths. Its technology center was awarded as the "State Enterprise Technology Centre" and its fiber testing center gained the recognition of CNAS National Laboratory. The Academician Expert Work Station was launched to carry out special scientific research and cooperation. Billion Fujian was awarded the Fifth "China's Top Ten Textile Science and Technology Award • New Technology Award" for the project of "melt-direct spinning online adding functional polyester fiber and its key manufacturing technology" during the year under review, which recognised the achievements of our innovative and research and development efforts. Billion Fujian and Billion High-tech, principal subsidiaries of the Group, both have been awarded as high technology enterprises.

As of 31 December 2018, the Group owned 115 national patents registered in China and had applied for 121 national patents. Among all of the Group's patented products, 91 of them have already been applied to our products sold to customers. Our research and development expenditure was RMB274,935,000 in 2018, representing 3.2% of our total revenue. Our research and development efforts mainly focus on improving product quality and production efficiency and enhancing the innovation capability of the Group in every aspect from chemical fiber to textile fabrics.

For the year ended 31 December 2018, revenue generated from the Group's differentiated products amounted to RMB5,895,033,000, accounting for 68.5% of its total revenue for the year, representing an increase of RMB839,488,000 or 16.6% as compared to 2017. The Group believes that its products, protected by national patents, will be well recognised in both domestic and international markets and will provide the Group with a strong competitive edge.

Laws and Regulations and Environmental Protection

The Group is in strict compliance with the "Environmental Protection Law of the People's Republic of China", "Law of the People's Republic of China on Conserving Energy" and other environmental protection regulations and rules while ensuring the highest quality standards in our products. The Group integrated the ISO9001 Quality Management System, ISO14001 Environmental Management System and OHSAS18001 Occupational Health and Safety Management System to achieve coordinated management and improved the management efficiency of the Group effectively. In addition, Billion Fujian and Billion High-tech under the Group have successfully passed the reviews regarding the three levels of production safety standardisation. The Group formulated enterprise standards that are more stringent than national standards for polyester filament yarns and conducted comprehensive inspections on the products used. Moreover, the Group implemented product quality and performance appraisal system comprehensively to all production departments. The Group also obtained the EU textile products OEKO Environmental Protection Product First Class Recognition, with all products passing the random product quality inspections by relevant bureaus of quality and technical supervision.

The Group strictly complied with the national environmental protection requirements and pursued the environmental guidelines of "precaution and treatment with precaution as priority" to reinforce and plan environmental protection works. We practiced well clean production and energy saving and consumption cutting and improved the efficiency of resources utilisation. The Group insisted on taking technical innovation as a driving force and adopted advanced contamination treatment technologies to control pollutant emissions during the production process, striving to fully complete the internal emission reduction plans.

Human-oriented Philosophy, Factory-based Family and Co-development

We believe a harmonious employment relationship is a key element of our success. Hence, we have been constantly adhering to the belief of "Human-oriented Philosophy, Factory-based Family and Co-development" to provide staff a full-fledged employment system and ensure fair and equitable protection to all staff, and we strictly comply with relevant labour laws, regulations and industry practices. Apart from providing good promotion prospects and trainings, the Group also puts in place a series of facilities and benefits for its staff and their families, which have enabled staff not only to develop their career, but also have a harmonious family and build a harmonious enterprise together with the Group.

Financial Review

Operational Performance

1. Revenue

Revenue of the Group for 2018 was RMB8,602,033,000, representing an increase of 22.4% as compared to RMB7,025,317,000 in 2017. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB6,784,724,000, accounting for 78.9% of total revenue, while revenue attributable to the sales of polyester thin films was RMB1,817,309,000, accounting for 21.1% of total revenue. The revenue analysis of the two products is as follows.

Polyester filament yarns

The Group adopts melt-direct spinning differentiated chemical fiber production line, which is technologically advanced by international standard, and possesses the leading spinning and texturing equipment and technology in the industry. The Group positions its polyester filament yarns products in the middle and high-end markets both domestically and abroad, a majority of which are differentiated products and have special physical features and functionalities such as cottonlike fibers, protection against ultraviolet rays, moisture and sweat-absorption, flame resistant, abrasion-resistant, super-soft, super-shining and antibacterial. The Group's products are widely used in the production of high-end fabrics and textiles for various apparels, footwear, home furnishings and industrial use. The Group's product plans are clearly positioned and targeted at the middle and high-end markets. In response to the needs of the target markets, the product plan designs are based on the production of differential oerlikon fibers and functional fibers.

Revenue attributable to the sales of polyester filament yarn products for the year under review was RMB6,784,724,000, representing an increase of RMB1,064,696,000 or 18.6% as compared to RMB5,720,028,000 in 2017. The average selling price of polyester filament yarns for the year under review was RMB10,595 per ton, representing an increase of RMB1,350 or 14.6% as compared to RMB9,245 per ton in 2017. The Group's overall production capacity has been enhanced after its production site E had duly commenced production on 30 September 2018, and coupled with the Group having been actively developing the research of the new functional products aspect of its differentiated products that has higher added-value, thus bringing a stable growth for both the sales revenue and sales volume of polyester filament yarns products.

Polyester thin films

The Group's polyester thin films can be widely used in various sectors including packaging, magnetic materials, imaging, industry, electronics and electrical appliances, with its principal products positioned at the middle and high-end markets both domestically and abroad. The Group re-engineered its polyester thin film production lines to conduct research and development on various categories of thin film products under different raw material formulae and various technological conditions. The Group introduced the production lines and research and development equipment with advanced international standards for bi-axial oriented polypropylene film ("BOPET thin films") from Dornier in Germany, which mainly focuses on the production, research and development and sales of BOPET thin films, and is the one of largest polyester thin film production enterprises in China.

Management Discussion and Analysis

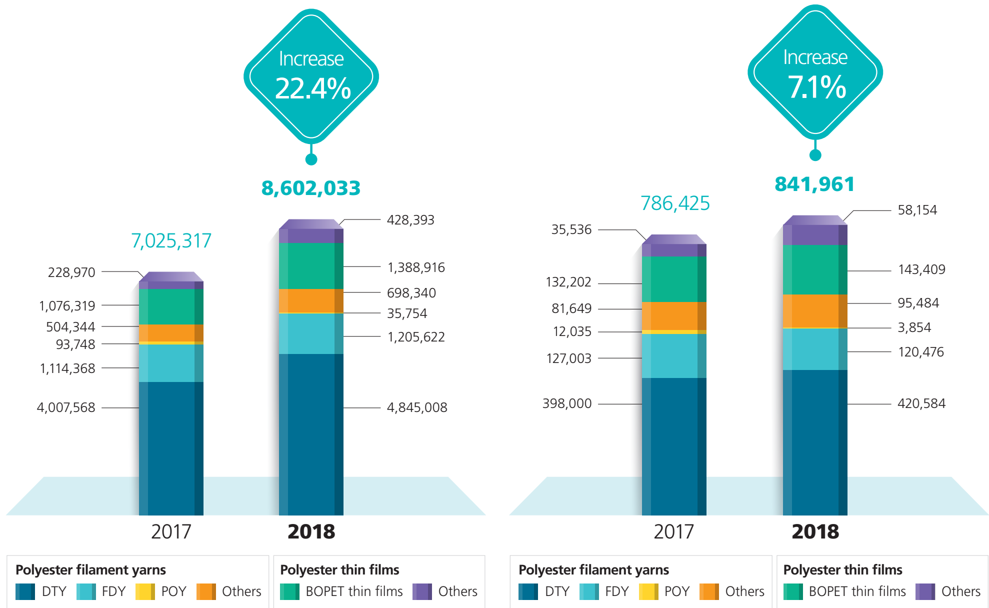
Revenue attributable to the sales of polyester thin film products for the year under review was RMB1,817,309,000, representing a significant increase of RMB512,020,000 or 39.2% as compared to RMB1,305,289,000 in 2017. The average selling price of polyester thin films for the year under review was RMB9,016 per ton, representing an increase of RMB1,234 or 15.9% as compared to RMB7,782 per ton in 2017.

Revenue and Sales Volume by Product

	Revenue				Sales Volume			
	2018		2017		**2018**		2017	
	RMB'000	**Percentage**	RMB'000	Percentage	**Tons**	**Percentage**	Tons	Percentage
Polyester filament yarns								
DTY	**4,845,008**	**56.4%**	4,007,568	57.0%	**420,584**	**50.0%**	398,000	50.6%
FDY	**1,205,622**	**14.0%**	1,114,368	15.9%	**120,476**	**14.3%**	127,003	16.2%
POY	**35,754**	**0.4%**	93,748	1.3%	**3,854**	**0.5%**	12,035	1.5%
Other polyester filament yarn products*	**698,340**	**8.1%**	504,344	7.2%	**95,484**	**11.3%**	81,649	10.4%
Sub-total	**6,784,724**	**78.9%**	5,720,028	81.4%	**640,398**	**76.1%**	618,687	78.7%
Polyester thin films								
BOPET thin films	**1,388,916**	**16.1%**	1,076,319	15.3%	**143,409**	**17.0%**	132,202	16.8%
Other polyester thin film products**	**428,393**	**5.0%**	228,970	3.3%	**58,154**	**6.9%**	35,536	4.5%
Sub-total	**1,817,309**	**21.1%**	1,305,289	18.6%	**201,563**	**23.9%**	167,738	21.3%
Total	**8,602,033**	**100.0%**	7,025,317	100.0%	**841,961**	**100.0%**	786,425	100.0%

* Other polyester filament yarn products represent polyethylene terephthalate ("PET") chips and wasted filament generated during the production process.

** Other polyester thin film products represent polyester chips, polyester films and wasted filament generated during the production process.



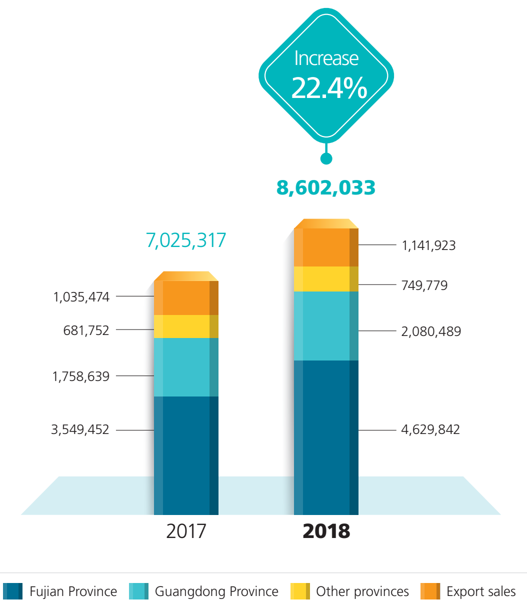
Sales by geographic region

The Group actively expanded and consolidated its market share in overseas markets by constantly improving its service quality and increasing its brand recognition. The export sales revenue increased from RMB1,035,474,000 in 2017 to RMB1,141,923,000 during the year under review, which was up by RMB106,449,000, representing an increase of 10.3%. Approximately 86.7% of the Group's revenue was generated from domestic market sales, of which 53.8% was from sales to customers in Fujian Province and 24.2% to customers in the adjacent Guangdong Province. The textile manufacturing industries in both provinces are booming, resulting in a strong demand for the Group's products.

Geographic Breakdown of Revenue

	2018		2017	
	RMB'000	**Percentage**	RMB'000	Percentage
Domestic sales				
Fujian Province	**4,629,842**	**53.8%**	3,549,452	50.5%
Guangdong Province	**2,080,489**	**24.2%**	1,758,639	25.0%
Other Provinces	**749,779**	**8.7%**	681,752	9.8%
Export sales*	**1,141,923**	**13.3%**	1,035,474	14.7%
Total	**8,602,033**	**100.0%**	7,025,317	100.0%

* Export sales were mainly made to countries such as Turkey, Italy, Belgium, Brazil, United States of America, Spain, Russia and Poland.



2. *Cost of Sales*

The cost of sales of the Group in 2018 was RMB7,238,112,000, representing an increase of 20.4% as compared to RMB6,011,995,000 in 2017. Such an increase was primarily attributable to the increase in raw materials prices. The cost of sales for polyester filament yarns was RMB5,671,375,000, accounting for 78.4% of total cost of sales. The cost of sales for polyester thin films was RMB1,566,737,000, accounting for 21.6% of total cost of sales. The percentages of costs of sales of these two types of products were generally in-line with the percentages of their respective sales revenue.

Polyester filament yarns

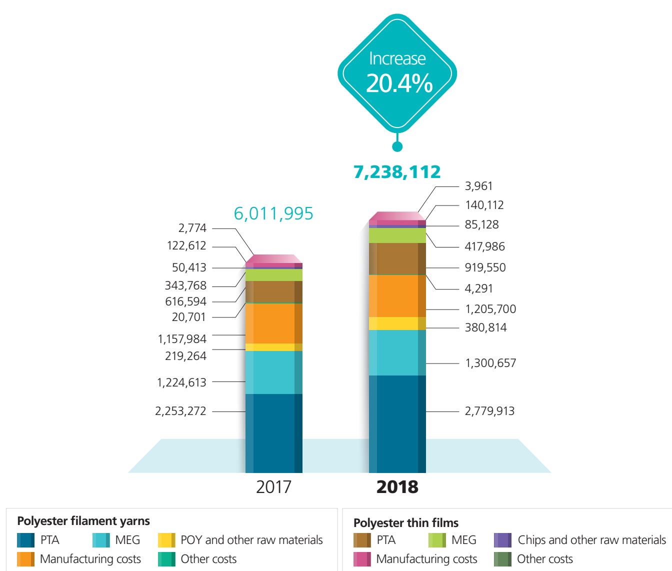
Average cost of sales for polyester filament yarns increased from RMB7,881 per ton in 2017 to RMB8,856 per ton during the year under review, representing an increase of RMB975 or 12.4% per ton, which was mainly due to the increase in the selling prices of purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG"), the raw materials of polyester filament yarns products. The average price of raw materials for polyester filament yarns increased from RMB5,976 per ton in 2017 to RMB6,967 per ton during the year under review, representing an increase of RMB991 or 16.6% per ton. The Group's key raw materials, namely PTA and MEG, accounted for 71.9% of total cost of sales for polyester filament yarns, the prices of which were directly affected by crude oil price – a key raw material of PTA and MEG.

Polyester thin films

The average cost of sales for polyester thin films increased from RMB6,774 per ton in 2017 to RMB7,773 per ton during the year under review, representing an increase of RMB999 or 14.7% per ton, which was mainly due to the increase in raw materials selling prices of polyester thin film products. In addition, the average price of raw materials for polyester thin films increased from RMB6,026 per ton in 2017 to RMB7,058 per ton during the year under review, representing an increase of RMB1,032 or 17.1% per ton.

Analysis of cost of sales

	2018		2017	
	RMB'000	**Percentage**	RMB'000	Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	**2,779,913**	**38.4%**	2,253,272	37.5%
MEG	**1,300,657**	**18.0%**	1,224,613	20.4%
POY and other raw materials	**380,814**	**5.3%**	219,264	3.6%
Sub-total	**4,461,384**	**61.7%**	3,697,149	61.5%
Manufacturing costs	**1,205,700**	**16.7%**	1,157,984	19.3%
Other costs	**4,291**	**0.0%**	20,701	0.3%
Sub-total	**5,671,375**	**78.4%**	4,875,834	81.1%
Polyester thin films				
Cost of raw materials				
PTA	**919,550**	**12.7%**	616,594	10.3%
MEG	**417,986**	**5.8%**	343,768	5.7%
Chips and other raw materials	**85,128**	**1.2%**	50,413	0.8%
Sub-total	**1,422,664**	**19.7%**	1,010,775	16.8%
Manufacturing costs	**140,112**	**1.9%**	122,612	2.0%
Other costs	**3,961**	**0.0%**	2,774	0.1%
Sub-total	**1,566,737**	**21.6%**	1,136,161	18.9%
Total	**7,238,112**	**100.0%**	6,011,995	100.0%



Analysis of product sales cost (Average per ton)

	2018 RMB (Per ton)	2018 Percentage	2017 RMB (Per ton)	2017 Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	**4,341**	**49.0%**	3,642	46.2%
MEG	**2,031**	**22.9%**	1,979	25.1%
POY and other raw materials	**595**	**6.7%**	355	4.5%
Sub-total	**6,967**	**78.6%**	5,976	75.8%
Manufacturing costs	**1,882**	**21.3%**	1,872	23.8%
Other costs	**7**	**0.1%**	33	0.4%
Sub-total	**8,856**	**100.0%**	7,881	100.0%
Polyester thin films				
Cost of raw materials				
PTA	**4,562**	**58.7%**	3,676	54.3%
MEG	**2,074**	**26.7%**	2,049	30.2%
Chips and other raw materials	**422**	**5.4%**	301	4.4%
Sub-total	**7,058**	**90.8%**	6,026	88.9%
Manufacturing costs	**695**	**8.9%**	731	10.8%
Other costs	**20**	**0.3%**	17	0.3%
Sub-total	**7,773**	**100.0%**	6,774	100.0%
Total	**8,598**		7,645	

3. Gross Profit

The gross profit of the Group in 2018 was RMB1,363,921,000, representing an increase of RMB350,599,000 or 34.6% as compared to RMB1,013,322,000 in 2017. Average selling price of products increased by RMB1,284 per ton, representing an increase of 14.4% from RMB8,933 per ton in 2017 to RMB10,217 per ton during the year under review, while average cost of products increased by RMB953 per ton, representing an increase of 12.5% from RMB7,645 per ton in 2017 to RMB8,598 per ton during the year under review. Therefore, the average gross profit of products per ton increased from RMB1,288 in 2017 to RMB1,619 during the year under review. As the increase in the average selling price of products per ton was much higher than the increase in the average cost of products per ton, the gross profit margin was increased by 1.5 percentage points from 14.4% in 2017 to 15.9% during the year under review.

Polyester filament yarns

Average selling price of polyester filament yarns increased by an average of RMB1,350 per ton, representing an increase of 14.6% from RMB9,245 in 2017 to RMB10,595 during the year under review. The average gross profit of polyester filament yarns per ton increased from RMB1,364 in 2017 to RMB1,739 during the year under review. The gross profit margin increased by 1.6 percentage points from 14.8% in 2017 to 16.4% during the year under review.

Polyester thin films

Average selling price of polyester thin films increased by an average of RMB1,234 per ton, representing an increase of 15.9% from RMB7,782 in 2017 to RMB9,016 during the year under review. The average gross profit of polyester thin films per ton increased from RMB1,008 in 2017 to RMB1,243 during the year under review. The gross profit margin increased by 0.8 percentage point from 13.0% in 2017 to 13.8% during the year under review.

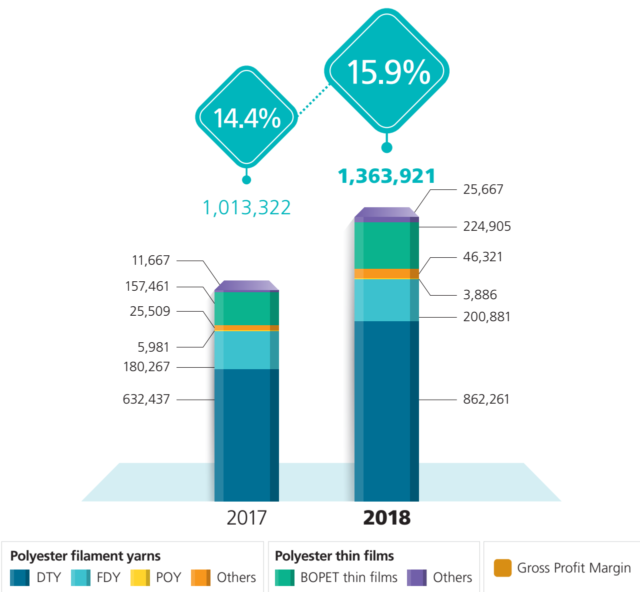
During the year under review, the increase in gross profit and gross profit margin of the Group was primarily attributable to an increase in the sales price of the Group's products per ton arising from the Group's continuous development of new functional products featuring high quality and technology, as well as the robust demand for polyester filament yarns and polyester thin films and continuous industry recovery.

Analysis of gross profit by product

	2018		2017	
	RMB'000	**Percentage**	RMB'000	Percentage
Polyester filament yarns				
DTY	**862,261**	**63.2%**	632,437	62.4%
FDY	**200,881**	**14.7%**	180,267	17.8%
POY	**3,886**	**0.3%**	5,981	0.6%
Other polyester filament yarn products*	**46,321**	**3.4%**	25,509	2.5%
Sub-total	**1,113,349**	**81.6%**	844,194	83.3%
Polyester thin films				
BOPET thin films	**224,905**	**16.5%**	157,461	15.5%
Other polyester thin film products**	**25,667**	**1.9%**	11,667	1.2%
Sub-total	**250,572**	**18.4%**	169,128	16.7%
Total	**1,363,921**	**100.0%**	1,013,322	100.0%

* Other polyester filament yarn products represent PET chips and wasted filament generated during the production process.

** Other polyester thin film products represent polyester chips, polyester films and wasted filament generated during the production process.



Breakdown of Product Selling Price, Cost and Gross Profit (Average per ton)

	2018 **RMB**	2017 RMB
Polyester filament yarns		
Average selling price	**10,595**	9,245
Average cost of sales	**8,856**	7,881
Average gross profit	**1,739**	1,364
Average gross profit margin	**16.4%**	14.8%
Polyester thin films		
Average selling price	**9,016**	7,782
Average cost of sales	**7,773**	6,774
Average gross profit	**1,243**	1,008
Average gross profit margin	**13.8%**	13.0%

4. *Other revenue*

Other revenue of the Group in 2018 amounted to RMB117,342,000, representing an increase of 38.4% as compared to RMB84,807,000 in 2017. Other revenue included bank interest income, government grants and gains on disposal of raw materials. Such change was mainly attributable to the combined effect of the increases in gains from government grants and gains on disposal of raw materials as compared to that of the same period last year, as well as the decrease in bank interest income.

5. *Other net gain*

Other net gain of the Group in 2018 amounted to RMB103,527,000, representing an increase of 218.5% as compared to RMB32,500,000 in 2017. Other net gain mainly comprised net realised and unrealised gains on other financial assets, net gain/(loss) on forward foreign exchange contracts and net exchange loss. Such change was mainly attributable to an increase in net realised and unrealised gains on other financial assets.

6. *Selling and distribution expenses*

Selling and distribution expenses of the Group in 2018 amounted to RMB82,772,000, representing a decrease of 3.2% as compared to RMB85,519,000 in 2017. Selling and distribution expenses mainly included transportation costs, wages of sales staff, operation expenses and promotion expenses. Such decrease was mainly due to the decrease in miscellaneous expenses.

7. *Administrative expenses*

Administrative expenses of the Group in 2018 amounted to RMB395,867,000, representing an increase of 13.5% as compared to RMB348,830,000 in 2017. Administrative expenses mainly included research and development costs, depreciation of office equipment, staff wages, general office expenses, professional and legal fees. Such change was mainly due to the increase in the costs of research and development.

8. *Finance costs*

Finance costs of the Group in 2018 amounted to RMB172,081,000, representing an increase of 164.8% as compared to RMB64,988,000 in 2017. Such change was mainly due to an increase in interest on bank borrowings due to increases in average banking loans and lending interest rate during the year under review.

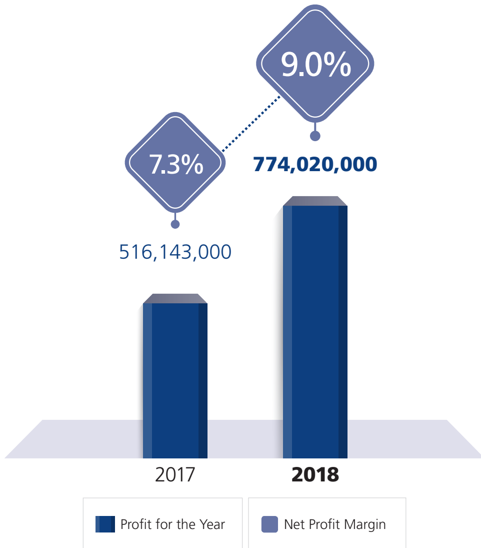
9. *Income tax*

Income tax of the Group in 2018 amounted to RMB160,050,000, representing an increase of 39.0% as compared to RMB115,149,000 in 2017. Such change was mainly due to an increase in profit before income tax of the Group, and the payment of withholding income tax due to distribution of dividends by Billion Fujian to Billion Development (Hong Kong) Limited.

Billion Fujian and Billion Hightech, the principal subsidiaries of the Group, have been awarded as high technology enterprises and were still able to enjoy corporate income tax at the concessionary rate of 15% in 2018.

10. Profit for the year

Profit of the Group for the year 2018 amounted to RMB774,020,000, representing an increase of RMB257,877,000 or 50.0% as compared to RMB516,143,000 in 2017. Net profit margin was 9.0%, representing an increase of 1.7 percentage points as compared to 7.3% in 2017. It was mainly due to an increase in the sales price of the Group's products per ton arising from the Group's continuous development of functional new products featuring high quality and technology, the sustained growth of polyester thin film business, as well as the continuous recovery of the differentiated polyester filament yarns business.



Financial Position

1. Liquidity and capital resources

As at 31 December 2018, cash and cash equivalent of the Group amounted to RMB455,623,000, representing an increase of RMB294,382,000 or 182.6% as compared to RMB161,241,000 as at 31 December 2017. Such an increase was mainly due to the combined effect of an increase in cash inflows generated from the Group's operating activities, a decrease in bank wealth management products held and expansion of plants and purchase of production equipment during the year under review.

During the year under review, net cash inflow generated from operating activities amounted to RMB899,037,000 and net cash outflow used in investing activities amounted to RMB372,966,000 and net cash outflow incurred from financing activities amounted to RMB241,519,000.

The Group primarily uses the cash inflow from operating activities to satisfy the requirements of working capital. During the year under review, inventory turnover days were 59.6 days (2017: 39.3 days), increased by 20.3 days as compared to the same period last year, which was mainly due to the increase in inventories by the Group for sales activities in the second half of the year due to the sustained industry robust sentiment and steady increase in selling price. Accounts receivable turnover days were 10.3 days (2017: 18.1 days), representing a decrease of 7.8 days as compared to last year, which was mainly due to the efficiency improvement resulting from improved accounts receivable collection procedures. The trade payable turnover days were 78.8 days (2017: 52.3 days), representing an increase of 26.5 days as compared to last year, which was mainly due to increasing dominance in inventory payables by the Group.

As at 31 December 2018, the Group had capital commitments of RMB3,119,419,000, which was mainly used in the development of the polyester bottle chip business and production facility of polyester filament yarns and the production facilities of polyester POY and FDY in Vietnam, and the expansion of production lines for polyester industrial yarns products in Jinjiang.

2. *Capital Structure*

As at 31 December 2018, total liabilities of the Group amounted to RMB6,521,029,000, and capital and reserves amounted to RMB5,938,504,000. The gearing ratio (total liabilities divided by total equity) was 109.8%. Total assets amounted to RMB12,459,533,000. The debt-to-assets ratio (total assets divided by total liabilities) was 1.9 times. Bank loans of the Group amounted to RMB3,407,099,000, of which RMB3,295,416,000 were repayable within one year and RMB111,683,000 were repayable after one year. Among the bank borrowings, 7.8% were secured by properties and restricted bank deposits.

Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Acquiring Capital Assets

As at 31 December 2018, as disclosed in notes 17 under the section headed "Notes to the Financial Statements" of the Annual Report, the Group held Bank Wealth Management Product (collectively, the "Investments") and principal-guaranteed structural bank deposits totaling approximately RMB1,514,738,000. Information of the Investments as at 31 December 2018 is stated as follows:

Name of the wealth management products issuer	Name of the wealth management products	Initial investments cost (RMB'000)	Unrealised gains on fair value change for the year ended 31 December 2018 (RMB'000)	Fair value as 31 December 2018 (RMB'000)	Percentage to the Group's net assets as at 31 December 2018
China Construction Bank	Qianyuan-Tianchanglijiu Wealth Management Product	400,000	7,316	407,316	6.9%
China Construction Bank	Qianyuan-Fuli Wealth Management Product	100,000	1,289	101,289	1.7%
China Construction Bank	Qianyuan-Xinyijiangnan Wealth Management Product	100,000	205	100,205	1.7%
China Construction Bank	Qianyuan-Fubao Wealth Management Product	50,000	21	50,021	0.8%
Jin Jiang Rural Commercial Bank	Fuwantong-Jinronghui Wealth Management Product	100,000	306	100,306	1.7%
Industrial Bank	Jinxueqiu-Youyue Wealth Management Product	350,000	1,579	351,579	5.9%
Industrial Bank	Jinxueqiu-Youxian No. 3 Wealth Management Product	100,000	23	100,023	1.7%
Industrial Bank	Structured Banking Deposit	300,000	3,999	303,999	5.1%

Qianyuan-Tianchanglijiu Wealth Management Product, Qianyuan-Fuli Wealth Management Product, Qianyuan-Xinyijiangnan Wealth Management Product and Qianyuan-Fubao Wealth Management Product (collectively, "CCB Wealth Management Product"), Jinxueqiu-Youyue Wealth Management Product, Jinxueqiu-Youxian NO.3 Wealth Management Product (collectively, "Industrial Bank Wealth Management Product"), Fuwantong-Jinronghui Wealth Management Product ("Jin Jiang Rural Commercial Bank Wealth Management Product") and structured banking deposit guaranteed by Industrial Bank represented 5.2%, 3.6%, 0.8% and 2.4% respectively of the total assets of the Group as at 31 December 2018.

CCB Wealth Management Product, Industrial Bank Wealth Management Product and Jin Jiang Rural Commercial Bank Wealth Management Product do not guarantee the principal or any return on such Investments. In the event that the value of the underlying asset in the respective relevant investment portfolio of China Construction Bank, Industrial Bank Wealth Management Product and Jin Jiang Rural Commercial Bank falls below the principal amount of the Investments purchased by the Group at the time of the redemption or maturity of the Investments, the Group may lose the entire principal amount invested in the Investments.

We believe that the Investments offer better returns when compared to the fixed-term deposit interest rates offered by commercial banks in China and the Investments are for the purpose of optimizing the use of the Group's idle cash without adversely affecting the Group's working capital and operations of the main business of the Group. The directors are of the view that the terms of the Investments are fair and reasonable and are in the interests of the Group and its Shareholders as a whole.

Save for those disclosed in this report, there were no other significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the period under review.

The Group will continue to seek opportunities in utilising its idle cash by investing in appropriate financial products. The Company's future plan in the coming year for other material investments and additions of capital assets are primarily related to the expansion of domestic production and the development of production business in Vietnam. The Company intends to finance such plan through internally generated funds and bank loans.

Charges on Assets

Save as disclosed in this report, there was no other charge on Group's assets as of 31 December 2018.

Contingent Liabilities

As at 31 December 2018, the Group did not have any contingent liabilities (2017: nil).

Foreign Currency Risk

As most of the Group's operating costs and expenses are denominated in Renminbi, the Group's operation is not exposed to significant foreign currency risk. As at 31 December 2018, the Group's foreign currency risk exposure was mainly derived from the net liabilities exposure denominated in U.S. dollar of RMB50,679,000 and the net liabilities exposure denominated in Euro of RMB5,456,000.

Employees and Remuneration

As at 31 December 2018, the Group had a total of 4,983 employees. The remuneration for employees is determined in accordance with their performance, professional experience and prevailing market conditions. The management reviews the Group's employee remuneration policy and arrangements on a regular basis. Apart from pension, the Group also grants discretionary bonus to certain employees as incentives in accordance with individual performance.

Business Outlook

The recovery of the global real economy has entered into a watershed with increasing risk in trade frictions. This is mainly due to the scope expansion of tariffs imposed by USA on the goods from China as well as increasing tariff rates. The trade frictions may also trigger financial market volatility. At present, China's economy remains stable albeit changes where opportunities and challenges co-exist. Although the income growth of Chinese residents has shown a slowdown trend, manufacturing investment is still relatively resilient.

By adhering to the mission of "providing eco-friendly products for the public, aspiring to be the world's premier supplier of consumer product materials", the Group implements the operation philosophy of "creating green products". As the largest polyester filament yarns manufacturer in Southern China, the largest differentiated chemical fiber production base in Fujian region and one of China's top 500 private enterprises, the Group has always been focusing on technological innovation. It adopts the world advanced melt-direct spinning differentiated chemical fiber production line, and possesses the leading spinning and texturing equipment and technology in the industry. The continuous launches of new products enable the products of the Group to cover wider application segments and penetrate into more differentiated segmented market. By focusing on products with higher value-to-cost, the Group has replaced certain imported products and alternative products of other materials, and has effectively overcome the risks brought by competition, and ensured the profitability and growth of the Group while integrating the technology and cost advantages and forming new sectors for profit growth.

The Group carries out Scientific Outlook on Development earnestly, adheres to "control quality and facilitate innovation" and endeavors to research new products and technology reform. Also, it pushes products transformation and upgrade and marches its step towards high value-added production. Meanwhile, it creates new market demand, keeps on providing premier raw materials to downstream textile enterprises, laying a foundation for the brand "Billion" and improves its strengths and position among industry peers. After the Group's production site E was formally put into production on 30 September 2018, its overall production capacity has been increased, and coupled with the Group actively developing the research of the new functional products aspect of its differentiated products that have higher added-value, both the sales and profit of the Group will continue to grow steadily.

In order to further expand the overseas markets, the Group has established Billion Vietnam in Vietnam, so as to develop the overseas polyester bottle chip business, and to set up to the polyester filament yarns production facility, and the polyester, POY and FDY production facilities in Vietnam. Currently, the project has fully entered into its construction phase. Furthermore, the Group is investing approximately US$185 million to set up a production line for polyester industrial yarns products to expand this business. The total production capacity of the new manufacturing facilities will be approximately 250,000 tons per annum and it is expected to gradually commence commercial production in the second quarter of 2020. Upon the completion of the Vietnam development plan and the polyester industrial yarns products expansion plan, the scale of the Group will further grow and the sales volume and revenue of its products will be further increased and returns of our shareholder will be further improved.

Corporate Governance Report

The Company believes that corporate governance is essential to its success and has adopted various measures to ensure that a high standard of corporate governance is maintained. The Board is committed to upholding a high standard of good corporate governance practices and procedures with a view to enhancing investors' confidence and the Company's accountability and transparency. The Company complied with all the applicable code provisions of the Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2018.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for securities transactions by the Directors. All the Directors confirmed, following specific enquiries by the Company, that they had complied with the required standard as set out in the Model Code during the year ended 31 December 2018.

The Company has also established written guidelines (the "Employees Written Guidelines") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the Employees Written Guidelines by the relevant employees was noted by the Company during the year ended 31 December 2018. In case the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

Board of Directors

Composition and role

As at 31 December 2018, the Board comprised two executive Directors, one non-executive Director and three independent non-executive Directors. The Board is responsible for corporate strategy and development, overseeing the business operations of the Group, financial reporting, legal and regulatory compliance, directors' appointments, risk management, major acquisitions, disposals and capital transactions. The Board is also responsible for the establishment of the internal control and risk management systems of the Company and discusses with the management regularly to ensure that internal control and risk management systems are operating effectively. The senior management is delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group. The Board meets regularly to review the financial and operating performance of the Company, and considers and approves the overall strategies and policies of the Company. The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors, non-executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

All Directors have devoted sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently.

Independent Non-executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision. In particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management so that all interests of shareholders can be taken into account, and the interests of the Company and its shareholders can be protected.

The Company had at least three independent non-executive Directors, therefore, it had satisfied the requirement under Rule 3.10(1) of the Listing Rules. One of the independent non-executive Directors, Mr. Chan Shek Chi, possesses appropriate professional accounting qualifications and financial management expertise, which is in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time, and notice of at least 14 days were given to Directors before the meetings. The Directors may participate either in person or through electronic means of communications.

Corporate Governance Report

The individual attendance record of each Director for the meetings of the Board and the general meetings held during the year ended 31 December 2018 is set out below:

Name of Director	Attendance/Number of Meetings Board Meetings	Shareholders Meetings
Executive Directors		
Mr. Sze Tin Yau *(Co-chairman)*	4/4	1/1
Mr. Wu Jinbiao *(Chief Executive Officer)*	4/4	1/1
Mr. Wang Li (resigned on 14 January 2018)	0/0	0/0
Mr. Liu Jingui (resigned on 1 June 2018)	1/1	1/1
Mr. Wu Zhongqin (resigned on 1 June 2018)	1/1	1/1
Non-executive Director		
Mr. Zeng Wu *(Co-chairman)*	4/4	1/1
Independent non-executive Directors		
Mr. Chan Shek Chi	4/4	1/1
Mr. Ma Yuliang	4/4	1/1
Mr. Lin Jian Ming (resigned on 28 December 2018)	4/4	1/1
Mr. Shih Chun Pi (appointed on 28 December 2018)	0/0	0/0

All Directors were provided with relevant materials relating to the matters brought before the meetings. They had separate and independent access to the senior management and the secretary of the Company at all time and might seek independent professional advice at the Company's expense. Where queries were raised by Directors, steps were taken to respond as promptly and fully as possible. All Directors had the opportunity to include matters in the agenda for Board meetings.

Chairman and chief executive officer

For the year ended 31 December 2018, the Co-chairmen of the Board were Mr. Sze Tin Yau and Mr. Zeng Wu. For the year ended 31 December 2018, the Chief Executive Officer of the Company was Mr. Wu Jinbiao. The Company has complied with code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

Relationships between members of the Board

Details of the relationships between members of the Board are set out in the section headed "Directors and Senior Management" in this annual report.

Continuous professional development

The Directors have been informed of the requirement under code provision A.6.5 of the CG Code regarding continuous professional development. Directors are encouraged to participate in professional development courses and seminars to develop and refresh their knowledge and skills. Details of attendance record of professional training by each Director during the year ended 31 December 2018 is set out below. The Directors as at 31 December 2018 confirmed that they had complied with such requirements for the period under review.

Name of Director	**Professional Training attended**
Executive Directors	
Mr. Sze Tin Yau *(Co-chairman)*	Yes
Mr. Wu Jinbiao *(Chief Executive Officer)*	Yes
Mr. Wang Li (resigned on 14 January 2018)	–
Mr. Liu Jingui (resigned on 1 June 2018)	–
Mr. Wu Zhongqin (resigned on 1 June 2018)	–
Non-executive Director	
Mr. Zeng Wu *(Co-chairman)*	Yes
Independent non-executive Directors	
Mr. Chan Shek Chi	Yes
Mr. Ma Yuliang	Yes
Mr. Lin Jian Ming (resigned on 28 December 2018)	Yes
Mr. Shih Chun Pi (appointed on 28 December 2018)	Yes

Directors' and officers' insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Board diversity policy

The Company adopted a board diversity policy (the "Board Diversity Policy") on 29 November 2013 which may be amended from time to time. A summary of the Board Diversity Policy together with the measurable objectives for implementing such policy and the progress on achieving such objectives are disclosed below.

Corporate Governance Report

Summary of the Board Diversity Policy

The Company recognises the importance of diversity in board members to corporate governance and the board effectiveness. The purposes of the Board Diversity Policy are to set out the basic principles to be followed to ensure that (i) a diverse range of candidates are considered; and (ii) 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. Board nomination and appointments will be made on merit basis based on its business needs from time to time while taking into account the benefits of diversity. The Company has identified and implemented programs that will assist in the development of a broader and more diverse pool of skilled and experienced employees and that, in time, their skills will prepare them for senior management and board positions.

Measurable objectives

Selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

(i) Independence: The Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong element of independence in the Board. The independent non-executive Directors shall be of sufficient calibre and stature for their views to carry weight.

(ii) Skills and experience: The Board possesses a balance of skills appropriate for the requirements of the business of the Company. The Directors have a mix of finance, academic and management backgrounds that taken together provide the Company with considerable experience in a range of activities.

Apart from the above objectives, the board diversity policy has the following objectives to comply with the Listing Rules:

1. at least one third of the members of the Board shall be independent non-executive Directors;

2. at least three of the members of the Board shall be independent non-executive Directors; and

3. at least one of the members of the Board shall have obtained appropriate professional qualifications or accounting or related financial management expertise.

The Board has achieved the measurable objectives in the Board Diversity Policy.

Monitoring and reporting

The nomination committee of the Board (the "Nomination Committee") is responsible for reviewing the Board Diversity Policy, developing and reviewing measurable objectives for implementing the Board Diversity Policy and monitoring the progress on achieving these measurable objectives. The Nomination Committee shall review this policy and the measurable objectives at least annually to ensure the continued effectiveness of the Board.

Appointment, re-election and removal of Directors

Each of the executive Directors has entered into a service contract with the Company with a fixed term, subject to retirement and re-election in accordance with the Articles of Associations of the Company.

According to code provision A.4.1 of the CG Code, all non-executive Directors shall be appointed for a specific term, subject to re-election. Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years or one year, subject to retirement and re-election in accordance with the Articles of Associations of the Company.

Each of the non-executive Directors and independent non-executive Directors may terminate his/her appointment by giving a one-month prior written notice to the Company or in accordance with the terms set out in the respective letters of appointment.

The Articles of Association of the Company provides that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Remuneration Committee

During the year ended 31 December 2018, members of the Remuneration Committee comprised Mr. Chan Shek Chi (chairman), Mr. Sze Tin Yau and Mr. Ma Yuliang. The majority of the Remuneration Committee members are independent non-executive Directors. The primary duties of the Remuneration Committee are to determine the specific remuneration packages of executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of Directors and senior management. The composition and written terms of reference of the Remuneration Committee are in line with the CG Code provisions.

In determining the emolument payable to Directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, and employment conditions elsewhere in the Group.

During the year ended 31 December 2018, the Remuneration Committee mainly performed the following duties:

- recommended the remuneration of Mr. Shih Chun Pi to the Board; and

- reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2018.

During the year ended 31 December 2018, 1 meeting was held by the Remuneration Committee to review and approve the remuneration package for Directors and senior management. The individual attendance record of each member for the meeting(s) of the Remuneration Committee held during the year under review is set out below:

Name of member	**Attendance/ Number of Meetings**
Mr. Chan Shek Chi *(Chairman)*	1/1
Mr. Sze Tin Yau	1/1
Mr. Ma Yuliang	1/1

Nomination Committee

During the year ended 31 December 2018, members of the Nomination Committee comprised Mr. Sze Tin Yau (Chairman), Mr. Chan Shek Chi, Mr. Lin Jian Ming (resigned on 28 December 2018) and Mr. Shih Chun Pi (appointed on 28 December 2018). The majority of the Nomination Committee members are independent non-executive Directors.

The primary duties of the Nomination Committee are to: (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board regularly and as appropriate, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors of the Company; (iv) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular, the chairmen and the chief executive; and (v) review the Board Diversity Policy, and develop and review measurable objectives for implementing such policy at least annually, as well as monitor the progress on achieving such objectives and make disclosure of its review results in the Corporate Governance Report annually. The composition and written terms of reference of the Nomination Committee are in line with the CG Code provisions.

During the year ended 31 December 2018, the Nomination Committee mainly performed the following duties:

- reviewed the qualifications of Mr. Shih Chun Pi and recommended his appointment to the Board;
- reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board, and whether the composition of the Board complied with the requirements of the board diversity policy during the year of 2018.

During the year ended 31 December 2018, 1 meeting was held by the Nomination Committee. The individual attendance record of each member for the meeting(s) of the Nomination Committee held during the year under review is set out below:

Name of member	**Attendance/ Number of Meetings**
Mr. Sze Tin Yau *(Chairman)*	1/1
Mr. Chan Shek Chi	1/1
Mr. Lin Jian Ming (resigned on 28 December 2018)	1/1
Mr. Shih Chun Pi (appointed on 28 December 2018)	0/0

Audit Committee

During the year ended 31 December 2018, members of the audit committee of the Board (the "Audit Committee") comprised Mr. Chan Shek Chi (chairman), Mr. Ma Yuliang, Mr. Lin Jian Ming (resigned on 28 December 2018) and Mr. Shih Chun Pi (appointed on 28 December 2018), all being independent non-executive Directors. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment, re-appointment and removal of external auditors and to review and supervise the financial reporting process, internal control and risk management systems of the Group. The composition and written terms of reference of the Audit Committee are in line with the CG Code provisions.

During the year ended 31 December 2018, the Audit Committee mainly performed following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2017 and the unaudited interim results for the six months ended 30 June 2018, met with the external auditors to discuss such annual results and interim results, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made;

- reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of external auditors; and

- assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management, including meeting with the management of the Company and internal control review department regarding the internal control of the Group and review the capabilities and scope of review of the internal control assessment team of the Group.

During the year ended 31 December 2018, 4 meetings were held by the Audit Committee. The individual attendance record of each member for the meeting(s) of the Audit Committee held during the year under review is set out below:

Name of member	**Attendance/ Number of Meetings**
Mr. Chan Shek Chi *(Chairman)*	4/4
Mr. Ma Yuliang	4/4
Mr. Lin Jian Ming (resigned on 28 December 2018)	4/4
Mr. Shih Chun Pi (appointed on 28 December 2018)	0/0

Corporate Governance Committee

The Company's corporate governance function is carried out by the corporate governance committee of the Board (the "Corporate Governance Committee"). During the year ended 31 December 2018, members of the Corporate Governance Committee initially comprised five executive Directors, namely Mr. Sze Tin Yau (Chairman), Mr. Wu Jinbiao, Mr. Wang Li (resigned on 14 January 2018), Mr. Wu Zhongqin (resigned on 1 June 2018) and Mr. Liu Jingui (resigned on 1 June 2018). The primary duties of the Corporate Governance Committee are to: (a) develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) review the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2018, the Corporate Governance Committee mainly performed following duties:

- reviewed and monitored the training and continuous professional development of the Directors and senior management of the Group; and

- reviewed the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2018, 1 meeting was held by the Corporate Governance Committee. The individual attendance record of each member at the meeting(s) of the Corporate Governance Committee held during the year under review is set out below:

Name of member	Attendance/ Number of Meetings
Mr. Sze Tin Yau *(Chairman)*	1/1
Mr. Wu Jinbiao	1/1
Mr. Wang Li (resigned on 14 January 2018)	0/0
Mr. Wu Zhongqin (resigned on 1 June 2018)	0/0
Mr. Liu Jingui (resigned on 1 June 2018)	0/0

Accountability and Audit

The Directors acknowledge their responsibility for the preparation of the financial statements for the year ended 31 December 2018, which give a true and fair view of the state of affairs of the Group as at that date and of the Group's results and cash flows for the year then ended. In preparing the accounts for the year ended 31 December 2018, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards (HKFRS) and Hong Kong Accounting Standards (HKAS) which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The statement of KPMG, the external auditors of the Company, about their reporting responsibilities on the financial statements is set out in the "Independent Auditor's Report" in this annual report.

Auditor's Remuneration

The Audit Committee is responsible for making recommendation to the Board on the appointment, reappointment and removal of the authorized external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of external auditors. The Company engages KPMG as its external auditors. During the year ended 31 December 2018, the Group was required to pay an aggregate amount of approximately RMB1,650,000 (2017: RMB1,520,000) to the external auditors for their audit services relating to financial information. Fees for non-audit services for the financial year comprise service charges for the following:

	2018 **RMB'000**	2017 RMB'000
Review of interim results	**650**	580
Tax advisory (service rendered by KPMG Advisory (China) Limited)	**–**	600
Total	**650**	1,280

Risk Management and Internal Control

The Board is responsible for maintaining sound and effective internal control systems in order to safeguard the Group's assets and shareholders' interests, and review and monitor the effectiveness of the Company's internal control and risk management systems on a regular basis so as to ensure that internal control and risk management systems that are in place are adequate.

The Company has established written policies and procedures applicable to all operating units to ensure the effectiveness of internal control. The Company also has a process for identifying, evaluating, and managing the significant risks in achieving its operational objective. This process is subject to continuous improvement and was in place throughout 2018 and up to the date of this report. The day-to-day operation is entrusted to a separate department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews on the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board has conducted a review and assessment of the effectiveness of the Company's internal control systems including financial, operational and compliance control and risk management. The Group's independent internal audit department was engaged to assist the Board to perform high-level review of the internal control systems for its business operations and processes.

Such review covered the financial, compliance and operational control as well as risk management mechanisms and assessment was made by discussions with the management of the Company and its external auditors. The Board believes that the existing risk management and internal control systems are adequate and effective.

Company Secretary

The secretary of the Company is Mr. Lai Wai Leuk, whose biographical details are set out in the section headed "Directors and Senior Management" in this annual report. Mr. Lai has been informed of the requirements under Rule 3.29 of the Listing Rules and had taken not less than 15 hours of relevant professional training for the year ended 31 December 2018.

Shareholders' Rights

Procedures for shareholders to convene an extraordinary general meeting and to put forward proposals during general meetings

Pursuant to the Article 58 of the Articles of Association of the Company, any one or more shareholders holding not less than one-tenth of the paid up capital of the Company at the date of deposit of the requisition which carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company by mail to Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene the meeting shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail to Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong. The secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to the ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Relationship with investors and shareholders

The Board recognises the importance of maintaining a clear, timely and effective communication with the shareholders and investors of the Company. The Board also recognises that effective communication with its investors is critical in establishing investor confidence and attracting new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors of the Company and the shareholders will receive accurate, clear, comprehensive and timely information of the Group through the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all corporate communications on the Company's website at www.baihong.com.

Members of the Board and chairmen of various Board committees will attend the forthcoming annual general meeting of the Company to be held on 10 April 2019 (the "AGM") to answer questions raised by shareholders. The resolution of every important proposal will be proposed at general meetings separately.

Voting at general meetings of the Company is conducted by way of poll in accordance with the Listing Rules. The poll results are announced at general meetings and published on the websites of the Stock Exchange and the Company respectively. In addition, the Company regularly meets with institutional investors, financial analysts and financial media, and promptly releases information related to any significant progress of the Company, so as to promote their understanding on the strategy, business and development of the Group through mutual and efficient communications. Such discussion shall be limited to explanation on previous published materials and general discussion of non-price sensitive information.

Constitutional Documents

During the year ended 31 December 2018, there had not been any change in the Company's memorandum and articles of association.

Directors and Senior Management

Executive Directors

Mr. Sze Tin Yau, aged 49, is an executive Director, a co-chairman of the Board, a co-founder of the Group, an authorized representative of the Company and a director of both Billion Fujian and Billion High-tech. Mr. Sze is also the chairmen of the nomination committee and the corporate governance committee of the Board, and a member of the remuneration committee of the Board. Mr. Sze has approximately 28 years of experience in the polyester filament yarns industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Prior to establishing the Group in 2003, he was the general manager of Fujian Jinjiang Yuhua Garment Industrial Co., Ltd.*（福建晉江裕華服裝實業有限公司）from March 1990 to April 2000 and was the chairman of the board of directors of Fujian Baikai Textile Chemical Fiber Industry Co., Ltd*（福建百凱紡織化纖實業有限公司）from May 2000 to October 2003. He is a founder and shareholder of Billion H.K. and has been the chairman of the board of directors of Billion H.K. since its incorporation in 1996. Mr. Sze was elected and appointed as a member of the 9th and 10th sessions of the Chinese People's Political Consultative Conference of Fujian Province*（福建省政協委員）in 2007 and 2012. He has also been appointed as an executive member of the 8th session of the Standing Committee of Business Association of Fujian Province*（福建省工商業聯合會總商會第八屆執行委員會執行委員）in July 2002. His other social undertakings include acting as the vice-chairman of the Chamber of International Commerce of Fujian Province*（中國國際商會福建商會副會長）and lifelong honorary president of Jinjiang City Charity Federation*（晉江市慈善總會永遠榮譽會長）. Mr. Sze joined the Company in November 2010.

As at 31 December 2018, Mr. Sze was the sole shareholder and director of Kingom Power Limited ("Kingom Power"), which was interested in 30.29% of the issued share capital of the Company as at 31 December 2018 and is a company deemed to be interested in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO"). Mr. Sze is also a director of both Billion Fujian and Billion High-tech. Mr. Sze is a brother-in-law of Mr. Wu Jinbiao, an executive Director and the chief executive officer of the Company. Mr. Sze is also a brother-in-law of Mr. He Wenyao, vice president of the Company. Save as disclosed above, Mr. Sze does not have any relationships with any other Directors, senior management, substantial shareholders (as defined in Listing Rules), or controlling shareholders (as defined in Listing Rules) of the Company.

Mr. Wu Jinbiao, aged 56, is an executive Director, the chief executive officer of the Company, a co-founder of the Group and a director of Billion Fujian and Billion High-tech. Mr. Wu is also a member of the corporate governance committee of the Board. Mr. Wu has approximately 33 years of experience in the differentiated polyester filament yarns industry and is primarily responsible for the daily operations of the Group. Prior to establishing the Group in 2003, Mr. Wu was also a founder and shareholder of Billion H.K. and has been a director of Billion H.K. since its incorporation in 1996. He was the deputy general manager of Fujian Jinjiang Yuhua Garment Industrial Co., Ltd.*（福建晉江裕華服裝實業有限公司）from May 1985 to April 2000 and was the executive director and general manager of Fujian Baikai Textile Chemical Fiber Industry Co., Ltd*（福建百凱紡織化纖實業有限公司）from May 2000 to October 2003. Mr. Wu was elected and appointed as a member of the 11th session of the Standing Committee of the Chinese People's Political Consultative Conference of Jinjiang City*（晉江市政協委員會常委）and a committee member of the Political Consultative Conference of Quanzhou City, Fujian Province*（福建省泉州市政協委員會委員）. He was recognised as an Advanced Individual of Textile Industry of Fujian Province*（福建省紡織工業先進個人）on 26 February 2007. Mr. Wu is also the honorary president of Jinjiang City Charity Federation*（晉江市慈善總會榮譽會長）. Mr. Wu joined the Company in November 2010.

As at 31 December 2018, Mr. Wu was the sole shareholder and director of Winwett Investments Limited ("Winwett"), which was interested in 6.44% of the issued share capital of the Company as at 31 December 2018 and is a company deemed to be interested in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. Mr. Wu is a brother-in-law of Mr. Sze Tin Yau, an executive Director and co-chairman of the Board. Save as disclosed above, Mr. Wu does not have any relationships with any other Directors, senior management, substantial shareholders (as defined in the Listing Rules) or controlling shareholders (as defined in the Listing Rules) of the Company.

Non-executive Director

Mr. Zeng Wu, aged 56, has over 25 years of experience in business and project management. In December 1992, Mr. Zeng joined the State Energy Investment Company Energy Conservation Company* (國家能源投資公司節能公司) (the predecessor of CECEP) and served as a project manager of the technology development department. In May 1994, he was transferred to project team number 2 and served as a project manager and senior engineer. In January 1995, he was transferred to the consultancy department and served as a supervisor and senior engineer. In October 2002, he joined China Energy Conservation Lantian Investment Advisory Management Company Limited* (中節藍天投資咨詢管理有限公司) and served as the chairman of the board. In February 2006, he joined China Energy Conservation Technology Investment Company Limited* (中節能環保科技投資有限公司) as the general manager, and was subsequently appointed as the chairman of the board of China Energy Conservation Technology Investment Company Limited in January 2008. Mr. Zeng has acted as the supervisor of the strategic management department, assistant to general manager of CECEP since May 2011 and March 2015 respectively. Mr. Zeng had been appointed as a non-executive director of CECEP COSTIN New Materials Group Limited, a company listed on the Main Board of The Stock Exchange, from 6 June 2016 to 1 August 2018. Mr. Zeng had been appointed as chairman of CECEP Chongqing from February 2017 to January 2019.

Mr. Zeng was awarded a bachelor's degree in ferrous metallurgy and a master's degree in metallurgical thermal engineering from Northeastern University (東北大學) (formerly known as Northeastern Institute of Technology* (東北工學院)) in July 1983 and March 1987, respectively.

Independent Non-executive Directors

Mr. Chan Shek Chi, aged 41, was appointed as an independent non-executive Director on 26 May 2014. Mr. Chan is also the chairmen of both the audit committee and the remuneration committee of the Board, and a member of the nomination committee of the Board. Mr. Chan has extensive experience and knowledge in auditing and accounting. Mr. Chan joined Cheng & Cheng Limited, CPA, in January 2004 and has been an audit partner there since January 2012. Prior to that, he worked as an accountant and assistant manager of KPMG in Hong Kong from September 1999 to January 2003.

Mr. Chan graduated from the University of Cambridge with a bachelor's degree in mathematics in June 1999. He also obtained a master of arts degree from the same university in May 2003. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a certified tax adviser of the Taxation Institute of Hong Kong.

Mr. Ma Yuliang, aged 80, was appointed as an independent non-executive Director on 31 March 2011. Mr. Ma is also a member of both the audit committee and the remuneration committee of the Board. Mr. Ma is currently retired. He was appointed as the division chief (處長) of No. 4 Division of the Reforming Bureau* (改革局四處) of State Economic Commission* (國家經濟委員會) in 1987, the deputy head (副司長) of Textile Industry Department Reforming Section* (紡織工業部體制改革司) in 1988 and an officer (主任) of Economic and Trade Department* (經濟貿易部) of the Textile Association of China* (中國紡織總會) in 1998. Mr. Ma was an independent director of Jilin Chemical Fiber Co., Ltd.* (吉林化纖股份有限公司), a company listed on the Shenzhen Stock Exchange, from 2001 to 2008, and Zhejiang Furun Co., Ltd.* (浙江富潤股份有限公司), a company listed on the Shanghai Stock Exchange, from 2002 to 2008. He obtained a bachelor's degree in management engineering from Jilin University of Technology* (吉林工業大學) currently known as Jilin University* (吉林大學), in 1963. Mr. Ma was accredited as a senior engineer by Bureau of Personnel, State Economic and Trade Commission* (國家經委人事局) in 1988.

Mr. Shih Chun Pi, aged 62, was appointed as an independent non-executive Director on 28 December 2018. Mr. Shih is also a member of both the audit committee and the nomination committee of the Board. Mr. Shih has over 40 years of experience in the textile industry. He has been mainly engaged in the production technology, sales promotion and management in the textile industry, accumulating his rich experience in fabric production, technology development, as well as supply chain management and sales market development of the garment factory. He is also adept in production planning and production operation model of the textile industry. Mr. Shih was the deputy general manager of Hong Kong Fen Hong Limited * (香港汾泓有限公司) from October 2011 to May 2018, the sales manager of Hong Kong Ming Feng Textile Factory* (香港明豐製衣廠) from October 1992 to September 2011, the assistant plant manager of Hong Kong Gee Cheung Knitting Factory Limited* (香港志祥針織有限公司) from November 1986 to September 1992 and a technician of Hong Kong Da Xing Textile Factory Limited* (香港大興織造公司) from November 1978 to October 1985. Before his relocation to Hong Kong in November 1978, he worked as a technician in Fujian Jinjiang Xinghua Textile Co., Ltd* (福建晉江市興華針織實業有限公司) from November 1974 to October 1978.

Senior management

Mr. Wu Jianshe, aged 64, is a vice president of the Company and a director of Billion Fujian and Billion High-tech. Mr. Wu has more than 30 years of experience in the textile industry. He joined the Group upon its establishment in 2003 as a director of Billion Fujian and has been primarily responsible for sales and marketing of the Group. Prior to joining the Group, from May 1985 to April 1998, he was the general business manager of Jinjiang Longhu Henglong Zip Textile Co., Ltd* (晉江龍湖恒隆拉鍊織造有限公司). He was also the sales manager of Fujian Jinjiang City Hengxinglong Polyester Co. Ltd. (福建省晉江市恒興隆化纖緣綸有限公司) from May 1998 to August 2003. Mr. Wu joined the Company in November 2010.

Mr. He Wenyao, aged 52, is a vice president of the Company and a director of Billion Fujian and Billion High-tech. Mr. He has approximately 28 years of experience in the textile industry. He joined our Group upon its establishment in 2003 and has been primarily responsible for procurement of raw materials, formulating the budget, market research, cost control management and logistics arrangement for our Group. Prior to joining our Group, he was the deputy general manager of Shishi City Yaofu Garment and Knitting Co., Ltd.* (石獅市耀富製衣織造有限公司) from June 1988 to September 2003.

Mr. He is a brother-in-law of Mr. Sze Tin Yau, an executive Director and a co-chairman of the Board.

Directors and Senior Management

Mr. Ye Jingping, aged 60, is a vice president of the Company and a senior engineer. He has over 30 years of experience in polyester filament yarn industry and is primarily responsible for our overall product manufacturing and research and development. He joined the Group in 2003. Prior to joining the Group, he was a technician, engineer, workshop manager and deputy general manager of Xiamen Chemical Polyester Factory*（廈門化纖廠）from August 1983 to May 2000. Mr. Ye graduated from the Faculty of Textile Chemical Engineering of East China Institute of Textile Engineering*（華東紡織工學院）, currently known as Donghua University*（東華大學）, majored in chemical fiber, in July 1983. Mr. Ye was accredited as the Model Worker in Quanzhou*（泉州市勞動模範）in April 2006 and as the advanced worker for technology development in light textile industry*（輕紡技術開發先進工作者）by Fujian Province Light Industry Bureau*（福建省輕工業廳）in 1993. He achieved the second award for science and technology progress*（科學進步成果二等獎）by his program named trial-manufacture of polyester lan cable*（滌綸網絡絲新產品試製）in 1988.

Mr. Wang Jinyu, aged 41, is a vice president of the Company. He has approximately 20 years of experience in polyester filament yarn industry. He participated in the operation of Billion Fujian since its establishment in 2003 and has been an assistant to the chairman since joining. Prior to joining the Group, he worked as the assistant to the chairman of the board of directors in Fujian Baikai Textile Chemical Fiber Industrial Co., Ltd.*（福建百凱紡織化纖實業有限公司）from March 2003 to October 2003. Mr. Wang worked as the head of the Public Relations Department of Jinxing (Fujian) Fiber Textile Industry Co., Ltd.*（錦興（福建）化纖紡織實業有限公司）from February 1998 to February 2003.

Mr. Lai Wai Leuk, aged 42, joined the Group in October 2013 and is the chief financial officer, the company secretary and one of the authorized representatives of the Company. Mr. Lai has more than 18 years of experience in auditing and accounting. Prior to joining the Group, he served as the chief financial officer of Aujet Industry Limited from May 2012 to August 2013. He also served successively as accountant, assistant manager and manager of KPMG from January 2004 to October 2009. Mr. Lai was transferred to KPMG Advisory (China) Limited from November 2009 to May 2012 and was a senior manager at the time of leaving. From May 2000 to January 2004, Mr. Lai worked at Fung, Yu & Co., Certified Public Accountants. Mr. Lai received his bachelor's degree of commerce majoring in accountancy from the University of Wollongong in Australia in December 1999 and obtained the Master of Corporate Governance from The Hong Kong Polytechnic University in September 2017. Mr. Lai is a member of Hong Kong Institute of Certified Public Accountants and an associate member of The Hong Kong Institute of Chartered Secretaries.

Mr. Xu Xiaofeng, aged 43, joined our Group in August 2004 and is the finance manager. Mr. Xu is primarily responsible for the daily finance-related work of our Group. Prior to joining the Group, he worked at the Finance Department of Fujian Jinjiang Hongyu Coating Knitting Co., Ltd.*（福建晉江鴻裕塗層織物有限公司）from October 1997 to June 2004. Mr. Xu obtained his diploma in banking accounting in June 1997 from Fuzhou University*（福州大學）. He was also qualified as a Medium Level Accountant of the PRC in December 2003 and was qualified as a Senior Level Accountant of the PRC in September 2015.

* *For identification purposes only*

Report of the Directors

The Directors are pleased to present the annual report of the Company together with the audited financial statements of the Group for the year ended 31 December 2018.

Principal place of business

The Company is a company incorporated in the Cayman Islands and domiciled in Hong Kong, and has its registered office at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business at Unit 1501, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong.

Principal activity

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 13 to the consolidated financial statements of the Company. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2018.

Business review

The business review of the Group as at 31 December 2018 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 17 to 37.

Compliance with the relevant laws and regulations

As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with suppliers, customers and other stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers, customers and other stakeholders to meet its immediate and long-term goals. During the year under review, there were no material and significant dispute between the Group and its suppliers, customers and/or other stakeholders.

Subsidiaries

Details of the principal subsidiaries of the Group as at 31 December 2018 are set out in note 13 to the consolidated financial statements of the Company.

Report of the Directors

Financial statements

A summary of the results, assets and liabilities of the Group for the year ended 31 December 2018, and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 81 to 167.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB774,020,000 (2017: profit of RMB516,143,000) has been transferred to reserves.

An interim dividend of HK4.7 cents per share (2017: HK5.9 cents per share) was paid on 5 October 2018.

Reserves

Details of movements in reserves of the Group and the Company for the year ended 31 December 2018 are set out in the consolidated statement of changes in equity and note 24 to the consolidated financial statements of the Company, respectively.

Distributable reserves

As at 31 December 2018, the Company's reserves, including the share premium account but after offsetting the accumulated losses, available for distribution and calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"), amounted to approximately HK$348,093,000, of which approximately HK$121,143,000 has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

Property, plant and equipment

During the year ended 31 December 2018, the Group held property, plant, equipment and other fixed assets of approximately RMB6,604,069,000. Details of the movements in fixed assets are set out in note 11 to the consolidated financial statements of the Company.

Major suppliers and customers

During the year ended 31 December 2018, the aggregate sales attributable to the Group's five largest customers accounted for approximately 13.8% of the Group's total sales and the sales attributable to the Group's largest customer accounted for approximately 8.9% of the Group's total sales. During the year ended 31 December 2018, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 56.8% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 29.9% of the Group's total purchases.

So far as is known to the Directors, other than those disclosed in "Connected transactions and related party transactions" section in this report, none of the Directors, their associates or substantial shareholders (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the share capital of any of the five largest customers and suppliers of the Group.

Charitable donations

Charitable and other donations made by the Group during the year ended 31 December 2018 amounted to approximately RMB81,000 (2017: approximately RMB100,000).

Share capital

Details of the movement in share capital of the Company during the year are set out in note 24 to the consolidated financial statements of the Company.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated, which would oblige the Company to offer new shares to existing shareholders on a pro-rata basis.

Purchase, sale or redemption of the Company's shares

During the year ended 31 December 2018, the Company bought back its own shares on the Stock Exchange, details of which are as follows:

Month/Year	**Number of shares bought back**	**Highest price paid per share** HK$	**Lowest price paid per share** HK$	**Aggregate price paid** RMB
January 2018	612,000	9.92	9.39	4,943,000
May 2018	994,000	12.48	10.28	8,849,000
July 2018	30,000	10.36	10.36	264,000
Total	1,636,000			14,056,000

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 1,636,000 shares were bought back in 2018 and the shares bought back were cancelled. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB13,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK$17,163,000 (equivalent to RMB14,043,000) was charged to share premium.

The purchase of the Company's shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

Results and dividends

The results of the Group for the year ended 31 December 2018 are set out in the consolidated financial statements of the Company.

The Directors propose to recommend the payment of a final dividend of HK5.7 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on 30 April 2019, and the payment of final dividends will be in cash.

The final dividend of HK5.7 cents per share is subject to approval by the shareholders at the AGM. Such dividend will be distributed from the share premium of the Company. In the opinion of the Directors, such distribution is in compliance with the articles of association adopted by the Company, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of a special resolution dividends may also be declared and paid out of the share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law; subject to the provisions of its Memorandum of Association or Articles of Association and provided that immediately following the distribution or paying of dividend the Company will be able to pay its debts as they fall due in the ordinary course of business.

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements, is set out on page 168 of this annual report. Such summary does not form part of the audited financial statements.

Directors

The Directors during the year ended 31 December 2018 and up to the date of this annual report are as follows:

Executive Directors

Mr. Sze Tin Yau *(Co-chairman)*
Mr. Wu Jinbiao *(Chief Executive Officer)*
Mr. Wang Li (resigned on 14 January 2018)
Mr. Wu Zhongqin (resigned on 1 June 2018)
Mr. Liu Jingui (resigned on 1 June 2018)

Non-executive Directors

Mr. Zeng Wu *(Co-chairman)*

Independent non-executive Directors

Mr. Chan Shek Chi
Mr. Ma Yuliang
Mr. Lin Jian Ming (resigned on 28 December 2018)
Mr. Shih Chun Pi (appointed on 28 December 2018)

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years and renewable automatically upon expiration until terminated by either party giving to the other not less than three months' notice in writing or in accordance with the terms set out in the respective service contracts. The service contracts of Mr. Sze Tin Yau and Mr. Wu Jinbiao commenced on 18 May 2011.

The non-executive Director, Mr. Zheng Wu, has signed a letter of appointment with the Company for a term of three years commencing on 6 June 2016.

Each of the independent non-executive Directors Mr. Chan Shek Chi, Mr. Ma Yuliang and Mr. Shih Chun Pi has signed a letter of appointment with the Company for a term of three years. The letter of appointment of Mr. Chan Shek Chi commenced on 26 May 2015 and renewed on 26 May 2018. Upon the expiry of his letter of appointment in 2018, his letter of appointment was further reviewed for a further term of one year. The letter of appointment of Mr. Ma Yuliang commenced on 18 May 2011 and renewed on 18 May 2014 and 18 May 2017. Upon the expiry of his letter of appointment in 2018, his letter of appointment was further reviewed for a further term of one year. The letter of appointment of Mr. Shih Chun Pi commenced on 28 December 2018. The letters of appointment may be terminated by one month's notice in writing served by the non-executive Directors or the independent non-executive Directors on the Company or in accordance with the terms set out in the respective letters of appointment.

Report of the Directors

In accordance with article 84 of the Articles of Association, Mr. Zeng Wu and Mr. Chan Shek Chi will retire from the Board by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Mr. Shih Chun Pi was appointed by the Board as an independent non-executive Director on 28 December 2018. Pursuant to article 83(3) of the Articles of Association, Mr. Shih shall retire and be eligible for re-election at the forthcoming AGM. Mr. Shih has offered himself for re-election at the forthcoming AGM.

No Director who is proposed for re-election at the forthcoming AGM has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

Remuneration of Directors and senior management

The remuneration committee of the Board considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors and the senior management of the Company. The remuneration of all the Directors and the senior management is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of employees
HK$Nil to HK$500,000	4
HK$500,000 to HK$1,000,000	2

Details of the Directors' remuneration are set out in note 8 to the financial statements.

Directors' and senior management's biographical details

The biographical details of the Directors and the senior management of the Group are set out in the section headed "Directors and Senior Management" in this annual report.

Directors' interests in competing business

None of the Directors is or was interested in any business apart from the Group's business, which competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018 and up to and including the date of this annual report.

Directors' rights to purchase shares or debentures

At no time during the year ended 31 December 2018 were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, nor were there any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Confirmation of independence

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

Interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations

As at 31 December 2018, the interests or short positions of each Director and chief executive in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are being taken or deemed to have taken under such provisions of the SFO); or were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or were required pursuant to the Model Code as set out in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Nature of interest	Number of ordinary shares of the Company interested	Percentage of the Company's issued share capital [3]
Mr. Sze Tin Yau [1]	Interest in controlled corporation	643,720,000	30.29%
Mr. Wu Jinbiao [2]	Interest in controlled corporation	136,820,000	6.44%

Report of the Directors

Notes:

(1) Mr. Sze Tin Yau owned 100% of the issued shares of Kingom Power Limited ("Kingom Power"), which directly owned 643,720,000 shares of the Company. Accordingly, Mr. Sze Tin Yau was deemed to be interested in all the shares of the Company owned by Kingom Power by virtue of the SFO.

(2) Mr. Wu Jinbiao owned 100% of the issued shares of Winwett Investments Limited, which directly owned 136,820,000 shares of the Company. Accordingly, Mr. Wu Jinbiao was deemed to be interested in all the shares of the Company owned by Winwett investments Limited by virtue of the SFO.

(3) Based on a total of 2,125,308,000 issued shares of the Company as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company has or is deemed to have 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 will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange. At no time had the Company or any of its holding company or subsidiaries participated in any arrangements to enable the Directors or chief executive (including their spouses or children under the age of eighteen) of the Company to acquire any interests and short positions of shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2018, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken to have an 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, or which were recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Nature of interest	Number of ordinary shares of the Company interested	Percentage of the Company's issued share capital [3]
Hong Kong (Rong An) Investment Limited ("Hong Kong Rong An")	Beneficial owner	804,064,808	37.83%
CECEP Chongqing Industry Co., Ltd. ("CECEP Chongqing") [1]	Interest in controlled corporation	804,064,808	37.83%
China Energy Conservation and Environmental Protection Group ("CECEP") [2]	Interest in controlled corporation	804,064,808	37.83%
Kingom Power Limited ("Kingom Power")	Beneficial owner	643,720,000	30.29%
Winwett Investments Limited	Beneficial owner	136,820,000	6.44%
Mr. Huang Shao Rong	Beneficial owner	19,587,000	0.92%
	Nominee for another person (other than a bare trustee)	208,532,000	9.81%
Ever Luxuriant Global Trading Limited	Beneficial owner	208,532,000	9.81%
Mr. Lin Haibin	Beneficial owner	27,723,000	1.30%
	Nominee for another person (other than a bare trustee)	172,538,000	8.12%
Haibin International Investments Limited	Beneficial owner	172,538,000	8.12%
Export – Import Bank of China	Person having a security interest in shares	300,000,000	14.12%

Notes:

(1) CECEP Chongqing owned 100% of the issued share capital of Hong Kong Rong An, and was thus deemed to be interested in all shares of the Company that Hong Kong Rong An was interested in under the SFO.

(2) CECEP Chongqing was a non-wholly-owned subsidiary of CECEP. CECEP was therefore deemed to be interested in all shares of the Company CECEP Chongqing was interested in under the SFO.

(3) Based on a total of 2,125,308,000 issued shares of the Company as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

Emolument policies

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the Group's profitability, the Group may also distribute discretionary bonus to its employees as an incentive for their contribution to the Group. The Group has adopted a share option scheme for its employees as described in the paragraph below.

Permitted Indemnity

Pursuant to the Articles of Association of the Company, the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in the execution of their duties in their offices. Such permitted indemnity provision has been in force throughout the year under review. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

Share option scheme

The Company has a share option scheme which was adopted on 31 March 2011 whereby the Directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The purpose of the scheme is to provide an opportunity for employees of the Group to acquire an equity participation in the Company and to encourage them to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

Eligible participants of the Share Option Scheme includes (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group; (b) a director or proposed director (including an independent non-executive director) of any member of our Group; (c) a direct or indirect Shareholder of any member of our Group; (d) a supplier of goods or services to any member of our Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and (g) an associate of any of the persons referred to in paragraphs (a) to (e) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as of 18 May 2011, i.e. 229,900,000 Shares.

Under the Share Option Scheme, no option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company's issued share capital from time to time. Participants of the Share Option Scheme are required to pay the Company HK$1.00 upon acceptance of the grant within 28 days after the offer date.

The exercise of any option which may be granted under the Share Option Scheme shall be determined by the Board and shall be not less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the date of grant;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised; however, the Board may, subject to the provisions of the Listing Rules, in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as it may think fit.

Unless otherwise terminated by the Board or the shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme. As at 31 December 2018, the remaining life of the Share Option Scheme was about 2 years and 6 months.

No options have been granted under the Share Option Scheme since its adoption up to 31 December 2018.

Retirement scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, each of the employer and employee are required to make contributions of 5% of the employees' relevant income to the scheme, subject to a cap of monthly relevant income of HK$30,000. Contributions made to the scheme are vested immediately.

Employees of the subsidiaries of the Group in the PRC participate in the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of salaries to these schemes to pay the benefits. The only obligation of the Group in respect to these schemes is the required contributions under the schemes.

For the year ended 31 December 2018, the Group's total contributions to the retirement schemes charged in the consolidated income statement amounted to RMB7,361,000 (2017: RMB5,960,000).

Details of the Group's pension scheme are set out in note 6(b) to the consolidated financial statements of the Company.

Connected transactions and related party transactions

(A) Connected transactions – continuing connected transactions

During the year ended 31 December 2018, the Group entered into the following continuing connected transactions which are subject to the reporting and annual review requirements set out in Chapter 14A of the Listing Rules.

Details of the continuing connected transactions are set out below:

(a) Sales of DTY by Billion Fujian to Fujian Baikai Elastic Weaving Co., Ltd.（福建省百凱彈性織造有限公司）("Baikai Elastic Weaving")*

During the year ended 31 December 2018, pursuant to a sales agreement entered into between Billion Fujian and Baikai Elastic Weaving on 11 December 2017, Billion Fujian sold DTY, FDY and POY to Baikai Elastic Weaving at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products that Billion Fujian sold to other independent customers.

Baikai Elastic Weaving is a wholly foreign-owned subsidiary of Baikai (HK) Industrial Limited（百凱（香港）實業有限公司）("Baikai H.K.") which in turn is wholly-owned by Mr. Lin Jinjing ("Mr. Lin") who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Elastic Weaving and is the sole director of Baikai Elastic Weaving. Accordingly, Baikai Elastic Weaving is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales to Baikai Elastic Weaving by Billion Fujian amounted to approximately RMB293,180,000, which is within the approved cap of RMB348,000,000 as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(b) Sales of DTY and FDY by Billion Fujian to Fujian Baikai Wrap Knitting Industry Co., Ltd.（福建省百凱經編實業有限公司）("Baikai Wrap Knitting")*

During the year ended 31 December 2018, pursuant to a sales agreement entered into between Billion Fujian and Baikai Wrap Knitting on 11 December 2017, Billion Fujian sold DTY and FDY to Baikai Wrap Knitting at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products that Billion Fujian sold to other independent customers.

Baikai Wrap Knitting is a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly-owned by Mr. Lin who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Wrap Knitting and is the sole director of Baikai Wrap Knitting. Accordingly, Baikai Wrap Knitting is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales to Baikai Wrap Knitting by Billion Fujian amounted to approximately RMB301,826,000, which is within the approved cap of RMB410,000,000 as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(c) Sales of semidull PET chips, POY and spin finish oil by Billion Fujian to Fujian Baikai Textile Chemical Fiber Industry Co., Ltd.（福建百凱紡織化纖實業有限公司）("Baikai Textile")*

During the year ended 31 December 2018, pursuant to a sales agreement entered into between Billion Fujian and Baikai Textile on 11 December 2017, Billion Fujian sold semidull PET chips, POY and spin finish oil to Baikai Textile at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products that Billion Fujian sold to other independent customers.

Baikai Textile is a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly owned by Mr. Lin who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Textile and is the sole director of Baikai Textile. Accordingly, Baikai Textile is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales to Baikai Textile by Billion Fujian amounted to approximately RMB169,765,000, which is within the approved cap of RMB369,000,000 as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(d) Sales of DTY by Billion Fujian to Fujian Baikai Zipper Dress Co., Ltd.（福建省百凱拉鏈服飾有限公司）("Baikai Zipper")*

During the year ended 31 December 2018, pursuant to a revised sales agreement entered into between Billion Fujian and Baikai Zipper on 11 December 2017, Billion Fujian sold DTY to Baikai Zipper at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products that Billion Fujian sold to other independent customers.

Baikai Zipper is a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly owned by Mr. Lin who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Zipper and is the sole director of Baikai Zipper. Accordingly, Baikai Zipper is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales to Baikai Zipper by Billion Fujian amounted to approximately RMB6,358,000, which is within the approved cap of RMB6,650,000 as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(e) Provision of paper boxes and rolls and related processing services by Fujian Baikai Paper Co., Ltd.（福建百凱紙品有限公司）("Baikai Paper") to Billion Fujian and Billion High-tech*

During the year ended 31 December 2018, pursuant to a purchase agreement and a processing agreement both entered into between Billion Fujian and Baikai Paper on 11 December 2017, Baikai Paper provided paper boxes and rolls and related processing services to Billion Fujian at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products or services that Billion Fujian paid to other independent suppliers. Pursuant to a purchase agreement and a processing agreement both entered into between Billion High-tech and Baikai Paper on 11 December 2017, Baikai Paper agreed to provide paper boxes and rolls and related processing services to Billion High-tech at prices agreed between the parties from time to time after arm's length negotiation and comparable to the then market prices of similar products or services that Billion High-tech paid to other independent suppliers.

Baikai Paper is a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly owned by Mr. Lin who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Paper and is a director of Baikai Paper. Accordingly, Baikai Paper is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales to Billion Fujian and Billion High-tech by Baikai Paper amounted to approximately RMB320,104,000 and RMB11,416,000 respectively, which are within the approved cap of RMB462,000,000 and RMB27,000,000 respectively as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(f) Sales of polyester filament yarns and waste polyester filament yarns by Billion Fujian to Xinhua Share Co., Ltd. Fujian（福建鑫華股份有限公司）, Gerfalcon Trade Co., Ltd. Jinjiang*（晉江海東青貿易有限公司）and Gerfalcon Nonwoven Industrial (Fujian) Co., Ltd.*（海東青非織工業（福建）有限公司）(collectively, the "Subsidiaries of CECEP COSTIN Group") and purchase of non-woven materials by Billion Fujian from the Subsidiaries of CECEP COSTIN Group*

On 21 December 2015, Billion Fujian entered into a framework agreement with the Subsidiaries of CECEP COSTIN Group ("Framework Agreement") with respect to the sales of polyester filament yarns and waste polyester filament yarns by Billion Fujian to CECEP COSTIN Group and purchase of non-woven materials by Billion Fujian from the Subsidiaries of CECEP COSTIN Group. The Framework Agreement is valid for a term of three years from 1 January 2016 to 31 December 2018. The product price shall be determined based on the then market price.

CECEP Chongqing is a substantial shareholder of the Company which was deemed to be interested in 37.83% of the Company's issued share capital as at 31 December 2018, thus also a connected person of the Company pursuant to the Listing Rules. CECEP Chongqing is also a controlling shareholder of CECEP COSTIN and controls the composition of a majority of the board of directors of CECEP COSTIN Group which in turn owns 100% of the shares of each of the Subsidiaries of CECEP COSTIN Group. Therefore, each of the Subsidiaries of CECEP COSTIN Group is an associate of CECEP Chongqing, and therefore a connected person of the Company pursuant to the Listing Rules.

For the year ended 31 December 2018, aggregate sales to, and aggregate purchases from, the Subsidiaries of CECEP COSTIN Group by Billion Fujian pursuant to the Framework Agreement amounted to approximately RMB0 and RMB0, respectively, which were within the approved cap of RMB50,000,000 and RMB500,000, respectively, as disclosed in the Company's announcement dated 21 December 2015.

(g) Supply of Electricity by Billion Fujian to Fujian Baikai Wrap Knitting

During the year ended 31 December 2018, pursuant to an electricity supply agreement entered into between Billion Fujian and Baikai Wrap Knitting on 24 July 2017, Billion Fujian supplied electricity to Baikai Wrap Knitting at a unit price which shall be calculated based on such price of electricity as prescribed by the relevant governmental authorities plus RMB0.018 per KWh.

Baikai Wrap Knitting is a wholly foreign-owned subsidiary of Baikai H.K. which in turn is wholly-owned by Mr. Lin who is a brother-in-law of both Mr. Sze Tin Yau and Mr. Wu Jinbiao, both being executive Directors. Mr. Lin controls the exercise of 100% of the voting power at general meetings of Baikai Wrap Knitting and is the sole director of Baikai Wrap Knitting. Accordingly, Baikai Wrap Knitting is an associate of Mr. Sze Tin Yau and Mr. Wu Jinbiao, and therefore a connected person of the Company under the Chapter 14A of the Listing Rules.

For the year ended 31 December 2018, sales of electricity to Baikai Wrap Knitting by Billion Fujian amounted to approximately RMB46,393,000, which is within the approved cap of RMB65,000,000 as disclosed in the Company's announcement dated 24 July 2017.

Confirmations from independent non-executive Directors and auditors of the Company

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board has engaged the auditors of the Company, KPMG, to perform certain agreed-upon procedures on the continuing connected transactions.

Based on the work performed, the auditors of the Company provided a letter to the Board confirming that the aforesaid continuing connected transactions:

(i) have been approved by the board of directors;

(ii) were entered into in accordance with the pricing policies of the Company;

(iii) were entered into in accordance with the terms of the relevant agreements governing such transactions; and

(iv) did not exceed the annual caps for the year ended 31 December 2018.

(B) Related Party Transactions

Details of the significant related party transactions undertaken in the normal course of business of the Group are provided under note 27 to the consolidated financial statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed, except for those described above in the paragraphs headed "(A) Connected transactions – continuing connected transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

Directors' interests in contracts of significance

No contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2018.

Contracts with controlling shareholders

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2018.

Sufficiency of public float

Rule 8.08(1)(a) of the Listing Rules requires that at least 25% of the total issued capital of an issuer must be held by the public at any time. Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the year ended 31 December 2018 and the subsequent period ended the date of this report.

Bank loans

Details of bank loans of the Company and the Group as at 31 December 2018 are set out in note 21 to the consolidated financial statements of the Company.

Audit committee

The audit committee of the Board had reviewed, together with the management and external auditors of the Company, KPMG, the accounting principles and policies adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2018. The financial statements had been agreed by the external auditors of the Company.

Auditors

The consolidated financial statements for the year ended 31 December 2018 have been audited by KPMG who shall retire and, being eligible, offer themselves for re-appointment at the annual general meeting. A resolution for the reappointment of KPMG as the auditors of the Company is to be proposed at the annual general meeting.

Dividend Policy

The declaration, form, frequency and amount of any dividend payout of the Company must be in accordance with relevant laws, rules and regulations and subject to the articles of association of the Company. Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company.

Dividend

The Board has recommended the payment of a final dividend of HK5.7 cents per share of the Company for the year ended 31 December 2018. The proposed final dividend, if approved by the shareholders at the annual general meeting, will be paid to the shareholders whose names appear on the register of members of the Company on 18 April 2019.

Closure of register of members

The register of members of the Company will be closed from Thursday, 4 April 2019 to Wednesday, 10 April 2019 (both days inclusive) for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming AGM. In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificate must be lodged with the Company’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 3 April 2019.

Report of the Directors

Further, the register of members of the Company will be closed from Tuesday, 16 April 2019 to Thursday, 18 April 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 15 April 2019.

Subject to shareholders' approval of the proposed final dividend at the AGM, the relevant dividends will be paid on Tuesday, 30 April 2019, to shareholders whose names appear on the register of members of the Company on Thursday, 18 April 2019.

On behalf of the Board

Sze Tin Yau
Co-chairman

Hong Kong, 28 February 2019

* *For identification purpose only*

Independent Auditor's Report

Independent auditor's report to the shareholders of Billion Industrial Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Billion Industrial Holdings Limited ("the Company") and its subsidiaries ("the Group"), set out on pages 81 to 167, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to note 3 to the consolidated financial statements and the accounting policy 1(u) on page 112.

The Key Audit Matter	How the matter was addressed in our audit
Each year, the Group enters into a framework sales agreement with each customer and sells its polyester filament yarns products and polyester thin films products according to the terms of separate purchase orders. The Group recognises revenue from domestic sales when the customers have received and accepted the goods which is acknowledged by the customer signing the goods delivery notes. The Group recognises revenue from export sales when the control of ownership of the goods have been transferred to the buyer which is generally considered to be when the goods are loaded on board a shipping vessel in line with contractual arrangements and related agreed commercial shipping terms. The Group's polyester filament yarns business is facing excess supply and intense competition in the industry which has placed significant downward pressure on the selling prices of its products. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and may be subject to manipulation by management to achieve expectations or targets particularly in light of the competition in the polyester filament yarns business.	Our audit procedures to assess the recognition of revenue included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting key customer contracts to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • comparing, on a sample basis, revenue transactions recorded before and after the financial year end date with signed goods delivery notes and shipping documents (as appropriate) to assess whether the revenue had been recognised in the appropriate financial period; • inspecting credit notes issued subsequent to the year end to assess whether management had made the necessary accounting adjustments in the appropriate financial period; • inspecting underlying documentation for manual journal entries raised during the year relating to revenue which were considered to be material or met other specific risk-based criteria; • selecting a sample of sales transactions recorded during the year and comparing the details to customer signed goods delivery notes (for domestic sales) and shipping documents, which included bills of lading (for export sales).

Valuation of wealth management product investments

Refer to note 16 and 25 (e) to the consolidated financial statements and the accounting policies 1(e) and 1(k)(i) on page 96 and page 100.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2018 Group held significant wealth management product investments which were issued by banks in mainland China. There are no fixed or determinable returns for these wealth management product investments and the principal is not secured or guaranteed. The wealth management product investments are stated at their fair value at the reporting date. Management adopted the discounted cash flow model to calculate the fair value of each wealth management product investment which involved the exercise of significant judgement, particularly in respect of the assumptions adopted relating to the risk free rate and the discount rate. We identified the valuation of wealth management product investments as a key audit matter because of their significance to the consolidated financial statements and because the valuation of these products requires the exercise of significant management judgement in determining the appropriate assumptions and in considering the methodology adopted in the valuation models.	Our audit procedures to assess the valuation of wealth management product investments included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over the valuation of wealth management product investments; • utilising our internal valuation specialists to assist us in evaluating the assumptions, inputs and methodologies adopted by management in their valuations of the wealth management product investments by performing our own valuations and comparing the results with the fair values determined by management; • considering the disclosures in the consolidated financial statements of the fair value risks and sensitivities with reference to the requirements of the prevailing accounting standards.

Independent Auditor's Report

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Liu Hin Pan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
28 February 2019

Consolidated Income Statement

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	**2018** **RMB'000**	2017 RMB'000
Revenue	3	**8,602,033**	7,025,317
Cost of sales		**(7,238,112)**	(6,011,995)
Gross profit		**1,363,921**	1,013,322
Other revenue	4	**117,342**	84,807
Other net gain	5	**103,527**	32,500
Selling and distribution expenses		**(82,772)**	(85,519)
Administrative expenses		**(395,867)**	(348,830)
Profit from operations		**1,106,151**	696,280
Finance costs	6(a)	**(172,081)**	(64,988)
Profit before taxation	6	**934,070**	631,292
Income tax	7	**(160,050)**	(115,149)
Profit for the year attributable to equity shareholders of the Company		**774,020**	516,143
Earnings per share			
Basic and diluted (RMB)	10	**0.36**	0.24

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 167 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018 RMB'000	2017 RMB'000
Profit for the year attributable to equity shareholders of the Company	**774,020**	516,143
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss (after tax):		
Exchange differences on translation of financial statements of operations outside mainland China	**(74,382)**	105,344
Available-for-sale securities: net movement in the fair value reserve (recycling)(ii)	–	12,849
	(74,382)	118,193
Total comprehensive income for the year attributable to equity shareholders of the Company	**699,638**	634,336

Notes:

(i) The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to retained earnings. See note 1(c)(i).

The notes on pages 87 to 167 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	11		
– Other property, plant and equipment		**4,896,239**	4,834,198
– Construction in progress		**1,203,120**	130,127
– Interests in leasehold land held for own use under operating leases		**504,710**	425,369
		6,604,069	5,389,694
Intangible assets	12	**12,152**	8,324
Deposits and prepayments	15	**862,345**	470,418
		7,478,566	5,868,436
Current assets			
Inventories	14	**1,565,282**	797,742
Trade and other receivables	15	**1,193,494**	1,340,875
Other financial assets	16	**1,514,738**	2,171,077
Restricted bank deposits	17	**251,830**	135,740
Cash and cash equivalents	18(a)	**455,623**	161,241
		4,980,967	4,606,675
Current liabilities			
Trade and other payables	19	**2,644,620**	1,597,376
Contract liabilities	20	**211,784**	–
Bank loans	21	**3,295,416**	3,129,828
Current portion of deferred income	22	**598**	7,539
Current taxation	23(a)	**92,137**	85,383
		6,244,555	4,820,126
Net current liabilities		**(1,263,588)**	(213,451)
Total assets less current liabilities		**6,214,978**	5,654,985

Consolidated Statement of Financial Position (Continued)

At 31 December 2018
(Expressed in Renminbi)

	Note	**2018 RMB'000**	2017 RMB'000
Non-current liabilities			
Bank loans	21	**111,683**	12,818
Deferred income	22	**598**	792
Deferred tax liabilities	23(b)	**164,193**	155,511
		276,474	169,121
NET ASSETS		**5,938,504**	5,485,864
CAPITAL AND RESERVES	24		
Capital		**17,873**	17,886
Reserves		**5,920,631**	5,467,978
TOTAL EQUITY		**5,938,504**	5,485,864

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

Approved and authorised for issue by the Board of Directors on 28 February 2019.

Sze Tin Yau
Director

Wu Jinbiao
Director

The notes on pages 87 to 167 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	Share capital note 24(c)(i) RMB'000	Share premium note 24(d)(i) RMB'000	Capital redemption reserve note 24(d)(ii) RMB'000	Statutory reserve note 24(d)(iii) RMB'000	Capital reserve note 24(d)(iv) RMB'000	Exchange reserve note 24(d)(v) RMB'000	Fair value reserve (recycling) note 24(d)(vi) RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017		18,112	589,275	1,221	357,883	1,805,631	(206,102)	5,067	2,600,567	5,171,654
Changes in equity for 2017:										
Profit for the year		–	–	–	–	–	–	–	516,143	516,143
Other comprehensive income		–	–	–	–	–	105,344	12,849	–	118,193
Total comprehensive income		–	–	–	–	–	105,344	12,849	516,143	634,336
Dividends approved in respect of the previous year	24(b)	–	(91,127)	–	–	–	–	–	–	(91,127)
Purchase of own shares	24(c)(ii)									
– par value paid		(226)	–	–	–	–	–	–	–	(226)
– premium paid		–	(123,495)	–	–	–	–	–	–	(123,495)
– transfer between reserves		–	(226)	226	–	–	–	–	–	–
Dividends declared in respect of the current year	24(b)	–	(105,278)	–	–	–	–	–	–	(105,278)
Appropriation to statutory reserve		–	–	–	54,216	–	–	–	(54,216)	–
Balance at 31 December 2017		**17,886**	**269,149**	**1,447**	**412,099**	**1,805,631**	**(100,758)**	**17,916**	**3,062,494**	**5,485,864**
Impact on initial application of HKFRS 9		–	–	–	–	–	–	(17,916)	17,916	–
Adjusted balance at 1 January 2018		17,886	269,149	1,447	412,099	1,805,631	(100,758)	–	3,080,410	5,485,864
Changes in equity for 2018:										
Profit for the year		–	–	–	–	–	–	–	774,020	774,020
Other comprehensive income		–	–	–	–	–	(74,382)	–	–	(74,382)
Total comprehensive income		–	–	–	–	–	(74,382)	–	774,020	699,638
Dividends approved in respect of the previous year	24(b)	–	(145,044)	–	–	–	–	–	–	(145,044)
Purchase of own shares	24(c)(ii)									
– par value paid		(13)	–	–	–	–	–	–	–	(13)
– premium paid		–	(14,043)	–	–	–	–	–	–	(14,043)
– transfer between reserves		–	(13)	13	–	–	–	–	–	–
Dividends declared in respect of the current year	24(b)	–	–	–	–	–	–	–	(87,898)	(87,898)
Appropriation to statutory reserve		–	–	–	80,606	–	–	–	(80,606)	–
Balance at 31 December 2018		**17,873**	**110,049**	**1,460**	**492,705**	**1,805,631**	**(175,140)**	**–**	**3,685,926**	**5,938,504**

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 167 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations	18(b)	**1,043,651**	349,631
Income tax paid		**(144,614)**	(73,817)
Net cash generated from operating activities		**899,037**	275,814
Investing activities			
Payment for the purchase of property, plant and equipment		**(9,924)**	(1,678)
Payment for purchase of intangible assets		**(5,668)**	(8,978)
Expenditure on construction in progress		**(1,428,132)**	(476,406)
Payment for interests in leasehold land held for own use under operating lease		**(87,170)**	(44,481)
Payment for wealth management products		**(1,220,000)**	(2,250,000)
Proceeds from the disposal of wealth management products		**2,266,554**	1,396,196
Payment of the structured deposits		**(900,000)**	(1,000,000)
Proceeds from the disposal of structured deposits		**1,122,203**	500,000
Uplift of restricted bank deposits		**135,740**	166,341
Placement of restricted bank deposits		**(251,830)**	(135,740)
Uplift of fixed deposits held at banks with maturity over three months		**–**	150,000
Other cash flows arising from investing activities		**5,261**	26,827
Net cash used in investing activities		**(372,966)**	(1,677,919)
Financing activities			
Payments of repurchase of shares	24(c)(ii)	**(14,056)**	(123,721)
Proceeds from new bank loans	18(c)	**4,005,089**	4,240,413
Repayment of bank loans	18(c)	**(3,827,830)**	(2,600,863)
Interest paid		**(171,780)**	(65,190)
Dividends paid to equity shareholders of the Company		**(232,942)**	(196,405)
Net cash (used in)/generated from financing activities		**(241,519)**	1,254,234
Net increase/(decrease) in cash and cash equivalents		**284,552**	(147,871)
Cash and cash equivalents at 1 January		**161,241**	315,297
Effect of foreign exchange rate changes		**9,830**	(6,185)
Cash and cash equivalents at 31 December	18(a)	**455,623**	161,241

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 87 to 167 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

Billion Industrial Holdings Limited ("the Company") was incorporated in Cayman Islands on 25 November 2010, as an exempted company with limited liability under the Company Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 18 May 2011.

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual 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 Companies Ordinance.

These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as "the Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis except the other financial assets are stated at their fair value (see note 1(e)).

The functional currency of the Company is Hong Kong Dollars ("HK$"). These consolidated financial statements are presented in Renminbi ("RMB") as the functional currency of the Group's operating subsidiaries is RMB. These consolidated financial statements presented in RMB have been rounded to the nearest thousand.

The preparation of these consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 2.

As at 31 December 2018, the Group recorded net current liabilities totalling RMB1,241,586,000 (2017: RMB213,451,000). In view of such circumstance, the directors have evaluated all the relevant facts available to them and are of the opinion that there are good track records or relationships with the banks which enhance the Group's ability to renew the current bank loans upon expiry or to use the undrawn banking facilities to enable the Group to meet its financial obligations as and when they fall due for the twelve months from the end of the reporting period of these consolidated financial statements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings	
Transferred from fair value reserve (recycling) relating to financial assets now measured at fair value through profit or loss (FVPL)	17,916
Net increase in retained earnings at 1 January 2018	17,916
Fair value reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	(17,916)
Net decrease in fair value reserve (recycling) at 1 January 2018	(17,916)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

a. Classification of financial assets and financial liabilities (Continued)

	HKAS 39 carrying amount at 31 December 2017	Reclassification	HKFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB'000
Financial assets carried at amortised cost			
Cash and cash equivalents	161,241	–	161,241
Restricted bank deposits	135,740	–	135,740
Trade and other receivables (note (i))	800,120	(500,000)	300,120
	1,097,101	(500,000)	597,101
Financial assets carried at FVPL			
Other financial assets	–	2,671,077	2,671,077
Financial assets classified as available-for-sale under HKAS 39 (note (ii))	2,171,077	(2,171,077)	–

Notes:

(i) Trade and other receivables of RMB500,000,000 were reclassified to financial assets carried at FVPL at 1 January 2018 as a result of the initial application of HKFRS 9.

(ii) Under HKAS 39, other financial assets were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

a. *Classification of financial assets and financial liabilities (Continued)*

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(e), 1(f), 1(k)(i), 1(n), 1(q).

The measurement categories for all financial liabilities remain the same.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, restricted bank deposits and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see note 1(k)(i).

The Group recognises that there will be not any material impact in the ECLs of the Group due to the change in accounting policy.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group) for the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

There is no impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers (Continued)

b. *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is not common for the Group to receive payments significantly in advance of revenue recognition in the Group's arrangements with its customers.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises financing component from sale of goods and this change in accounting policy had no material impact on opening balance as at 1 January 2018.

c. *Presentation of contract assets and liabilities*

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. To reflect these changes in presentation, "Receipts in advance" amounting to RMB507,899,000, which was previously included in trade and other payables are now included under contract liabilities at 1 January 2018, as a result of the adoption of HKFRS 15.

(iii) HK (IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

1 Significant accounting policies (Continued)

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(k)(ii)).

(e) Other financial assets

(A) Policy applicable from 1 January 2018

Other financial assets represented unlisted wealth management product investments and the structured deposits, which are classified as FVPL. These investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire. The investments are initially stated at fair value, which is their transaction price including directly attributable transaction costs, unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. At the end of each reporting period the fair value is remeasured. Changes in the fair value of the investments (including interest) are recognised in profit or loss from 1 January 2018.

1 Significant accounting policies (Continued)

(e) Other financial assets (Continued)

(B) Policy applicable prior to 1 January 2018

Unlisted wealth management product investments are classified as available-for-sale securities, which are initially stated at fair value. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. When the investments are derecognised or impaired (see note 1(k)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognised in equity is reclassified to profit or loss.

Structured deposits are classified as loans and receivables, which are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method (for impairment, see note 1(k)(i) – policy applicable prior to 1 January 2018).

(f) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(w)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(g) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 30 years after the date of completion except the commercial building situated in Hong Kong with useful life of 40 years.

– Plant and machinery	18 years
– Office and other equipment	3 – 18 years
– Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(k)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– emission rights of nitrogen oxides	5 years
– software	10 years

Both the period and method of amortisation are reviewed annually.

1 Significant accounting policies (Continued)

(i) Construction in progress

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated in the statement of financial position at cost less impairment losses (see note 1(k)(ii)). The cost includes cost of construction, plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent that these are regarded as an adjustment to borrowing costs (see note 1(w)).

Construction in progress is not depreciated until such time as the assets are completed and substantially ready for their intended use.

(j) Operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, restricted bank deposits and trade and other receivables).

Financial assets measured at fair value including other financial assets are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Basis of calculation of interest income on credit-impaired financial assets

Interest income recognised in accordance with note 1(u)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– intangible assets;

– construction in progress; and

– investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 Significant accounting policies (Continued)

(l) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(u)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(n)).

Policy prior to 1 January 2018

Amounts received before the related work was performed were presented as "receipts in advance" under "trade and other payables". These balances have been reclassified on 1 January 2018 as shown in note 19 (see note 1(c)(ii)).

1 Significant accounting policies (Continued)

(n) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(w)).

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(k)(i).

(r) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 Significant accounting policies (Continued)

(s) Income tax (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

(i) in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

(ii) in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

- the same taxable entity; or

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 Significant accounting policies (Continued)

(t) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

1 Significant accounting policies (Continued)

(u) Revenue and other income (Continued)

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of products

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of products was recognised when the products were delivered at the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership. There is no impact to opening balance as at 1 January 2018 (see note 1(c)(ii)).

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

1 Significant accounting policies (Continued)

(v) Translation of foreign currencies (Continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation with a financial currency other than RMB, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(x) Research and development expenditure

Research and development expenditure comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

1 Significant accounting policies (Continued)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if 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 the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities 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).

   (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 Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 Significant accounting policies (Continued)

(z) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No segment information is presented for the Group's business segment as the Group operates in a single business, manufacture and sales of polyester products in a single geographical region, which is the PRC. An analysis on the Group's revenue by product category is set out in note 3.

2 Significant accounting judgement and estimates

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with indefinite lives are amortised on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

2 Significant accounting judgement and estimates (Continued)

(b) Loss allowances of trade and other receivables

The Group estimates the loss allowances for trade receivables by assessing the expected credit loss. This requires the use of estimates and judgements. The management has established a loss allowance for trade receivables based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current conditions and forecasts of future economic conditions at the reporting date. Allowances are applied to trade receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade receivables and thus the loss allowance in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

(d) Fair value of other financial assets

Other financial assets are measured at fair value at the end of the year. The Group reviews redemption terms of each product announcement and history of the product series and considers the probability that the issuers exercise the early termination option is negligible. Thus the Group calculates the fair value of other financial assets by discounting the one-off cash flow at maturity date back to the end of the year. The discounted cash flows are estimated based on expected return at risky rate, which is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 Revenue

The principal activities of the Group are manufacturing and sales of polyester filament yarns products and polyester thin films products.

Disaggregation of revenue

Revenue represents the sales value of goods supplied to customers (net of value-added tax, other sales tax and discounts). Disaggregation of revenue from contracts with customers by major products is as follows:

	2018	2017
		(Note)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
– Polyester filament yarns products	**6,784,724**	5,720,028
– Polyester thin films products	**1,817,309**	1,305,289
	8,602,033	7,025,317

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

The Group's customer base is diversified. No individual customer (2017: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2018.

The timing of revenue recognition of all revenue from contracts with customers is at a point in time.

As no obvious seasonality in demand for products, the Group has no seasonality in operations.

4 Other revenue

	2018 RMB'000	2017 RMB'000
Bank interest income	**6,056**	25,055
Government grants	**84,111**	38,786
Sales of raw materials	**26,874**	20,627
Others	**301**	339
	117,342	84,807

Government grants include RMB76,505,000 (2017: RMB21,334,000) were received from several local government authorities for the Group's contribution to local economies of which the entitlement was unconditional and at the discretion of the relevant authorities. The remaining amounts of RMB7,606,000 (2017: RMB17,452,000) were transferred from deferred income to consolidated income statement (see note 22).

5 Other net gain

	2018 RMB'000	2017 RMB'000
Net gain on sale of property, plant and equipment	**21**	374
Donation	**(81)**	(100)
Net exchange loss	**(6,733)**	(5,572)
Net gain/(loss) on forward foreign exchange contracts	**1,831**	(15,680)
Net realised and unrealised gains on other financial assets	**106,582**	–
Available-for-sale securities: reclassified from equity	**–**	46,196
Insurance compensation	**–**	4,722
Others	**1,907**	2,560
	103,527	32,500

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2018 **RMB'000**	2017 RMB'000
Interest on bank loans	**127,926**	55,894
Other interest expenses	**44,155**	9,094
	172,081	64,988

* No borrowing costs have been capitalised in 2018 (2017: nil).

(b) Staff costs (including directors' emoluments in note 8):

	2018 **RMB'000**	2017 RMB'000
Contributions to defined contribution retirement plan	**7,361**	5,960
Salaries, wages and other benefits	**254,886**	219,924
	262,247	225,884

6 Profit before taxation (Continued)

(c) Other items:

	2018 RMB'000	2017 RMB'000
Amortisation of interests in leasehold land held for own use under operating leases	**12,814**	9,935
Amortisation of intangible assets	**1,840**	654
Depreciation	**338,396**	327,916
Auditors' remuneration	**2,300**	2,100
Operating lease charges in respect of properties	**1,082**	1,191
Research and development costs*	**274,935**	236,279
Cost of inventories**	**7,238,112**	6,011,995

* Research and development costs include RMB103,763,000 (2017: RMB98,285,000) relating to staff costs in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

** Cost of inventories include RMB413,999,000 (2017: RMB395,230,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2018 RMB'000	2017 RMB'000
Current tax – PRC Income Tax		
Provision for the year	**139,405**	100,903
Over-provision in respect of prior years	**(3,517)**	(1,496)
Dividends withholding tax	**15,480**	–
	151,368	99,407
Deferred tax (note 23(b))		
Origination and reversal of temporary differences	**8,682**	15,742
	160,050	115,149

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 Income tax in the consolidated income statement (Continued)

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	2018 **RMB'000**	2017 RMB'000
Profit before taxation	**934,070**	631,292
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**356,747**	161,530
Tax effect of non-deductible expenses	**5,449**	7,804
Tax effect of non-taxable income	**(118,186)**	(2)
Tax effect of unused tax losses not recognised	**2,226**	2,843
Tax effect of use of unused tax losses not recognised in prior years	**(3,087)**	–
Over-provision in prior years	**(3,517)**	(1,496)
Tax concessions (note (iii) and (iv))	**(95,062)**	(55,530)
Dividends withholding tax	**15,480**	–
Actual tax expenses	**160,050**	115,149

7 Income tax in the consolidated income statement (Continued)

(b) Reconciliation between income tax and accounting profit at applicable tax rates: (Continued)

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The PRC's statutory tax rate is 25%.

(iii) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China, Fujian Billion Polymerization Fiber Technology Industrial Co., Ltd.*（福建百宏聚纖科技實業有限公司）("Billion Fujian") was granted the Advanced and New Technology Enterprise Status for a valid period of 3 years from 2018 to 2020 which entitles Billion Fujian to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations.

(iv) In accordance with the relevant PRC Corporate Income Tax Laws, regulations and implementation guidance notes, the subsidiary in mainland China, Fujian Billion High-tech Material Industrial Co., Ltd.*（福建百宏高新材料實業有限公司）("Billion High-tech") was approved to be the Advanced and New Technology Enterprise Status for a valid period of 3 years from 2017 to 2019 which entitles Billion High-tech to a reduced income tax rate at 15% during the valid period under the New Tax Law and its relevant regulations.

(v) From 1 January 2008, a non-resident enterprise without an establishment or a place of business in the PRC or which has an establishment or a place of business in the PRC but whose relevant income is not effectively connected with the establishment or place of business in the PRC, will be subject to a withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident may be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise.

On 6 April 2018, the Group had obtained the certificates of Hong Kong tax residents from the Inland Revenue Department of Hong Kong, which are effective from 2017 to 2019.

Dividends withholding tax represents tax charged by the PRC tax authority on dividends distributed by the Group's subsidiaries in the PRC during the year.

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2018 Total RMB'000
Executive directors					
Mr. Sze Tin Yau	–	1,049	–	15	1,064
Mr. Wu Jinbiao	–	998	–	15	1,013
Mr. Wang Li (i)	13	–	–	–	13
Mr. Wu Zhongqin (iii)	158	–	–	–	158
Mr. Liu Jingui (iv)	158	–	–	–	158
Non-executive director					
Mr. Zeng Wu	422	–	–	–	422
Independent non-executive directors					
Mr. Chan Shek Chi	118	–	–	–	118
Mr. Ma Yuliang	77	–	–	–	77
Mr. Lin Jian Ming (v)	76	–	–	–	76
Mr. Shih Chun Pi (vi)	1	–	–	–	1
Total	1,023	2,047	–	30	3,100

8 Directors' emoluments (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2017 Total RMB'000
Executive directors					
Mr. Sze Tin Yau	–	1,077	–	15	1,092
Mr. Wu Jinbiao	–	1,025	–	15	1,040
Mr. Wang Li (i)	390	–	–	–	390
Mr. Xue Mangmang (ii)	74	–	–	–	74
Mr. Wu Zhongqin (iii)	228	–	–	–	228
Mr. Liu Jingui (iv)	316	–	–	–	316
Non-executive directors					
Mr. Zeng Wu	433	–	–	–	433
Mr. Wu Zhongqin (iii)	162	–	–	–	162
Independent non-executive directors					
Mr. Chan Shek Chi	120	–	–	–	120
Mr. Ma Yuliang	78	–	–	–	78
Mr. Lin Jian Ming (v)	78	–	–	–	78
Total	1,879	2,102	–	30	4,011

During the year, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in note 9 as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(i) Mr. Wang Li has resigned as an executive director, with effect from 14 January 2018.

(ii) Mr. Xue Mangmang has resigned as an executive director, with effect from 10 March 2017.

(iii) Mr. Wu Zhongqin has been re-designated from non-executive director to executive director with effect from 19 May 2017, and he has resigned as an executive director with effect from 1 June 2018.

(iv) Mr. Liu Jingui has resigned as an executive director, with effect from 1 June 2018.

(v) Mr. Lin Jian Ming has resigned as a non-executive director, with effect from 28 December 2018.

(vi) Mr. Shih Chun Pi has been appointed as a non-executive director, with effect from 28 December 2018.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2017: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining two (2017: two) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	**1,299**	1,261
Retirement scheme contributions	**16**	15
	1,315	1,276

The emoluments of the two (2017: two) individuals with the highest emoluments are with the following bands:

	2018 Number of individuals	2017 Number of individuals
Nil to HK$1,000,000	**2**	2

10 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB774,020,000 (2017: RMB516,143,000) and the weighted average of 2,125,699,375 ordinary shares (2017: 2,141,832,477 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at 1 January	**2,126,944,000**	2,153,792,000
Effect of shares repurchased (note 24(c)(ii))	**(1,244,625)**	(11,959,523)
Weighted average number of ordinary shares	**2,125,699,375**	2,141,832,477

There were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017, and therefore, diluted earnings per share is the same as the basic earnings per share.

11 Property, plant and equipment

	Buildings held for own use RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Sub-total RMB'000	Construction in progress RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2017	2,022,557	4,120,809	555,328	75,565	6,774,259	44,979	483,824	7,303,062
Exchange adjustments	(3,686)	–	(59)	(105)	(3,850)	–	–	(3,850)
Additions	–	–	310	1,368	1,678	299,621	13,226	314,525
Transfers	20,876	190,171	3,426	–	214,473	(214,473)	–	–
Disposals	–	–	–	(3,027)	(3,027)	–	–	(3,027)
At 31 December 2017	2,039,747	4,310,980	559,005	73,801	6,983,533	130,127	497,050	7,610,710
Accumulated depreciation and amortisation:								
At 1 January 2017	(381,628)	(1,189,032)	(194,201)	(60,173)	(1,825,034)	–	(61,746)	(1,886,780)
Exchange adjustments	497	–	59	53	609	–	–	609
Charge for the year	(67,191)	(226,758)	(29,225)	(4,742)	(327,916)	–	(9,935)	(337,851)
Written back on disposals	–	–	–	3,006	3,006	–	–	3,006
At 31 December 2017	(448,322)	(1,415,790)	(223,367)	(61,856)	(2,149,335)	–	(71,681)	(2,221,016)
Net book value:								
At 31 December 2017	1,591,425	2,895,190	335,638	11,945	4,834,198	130,127	425,369	5,389,694

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(Expressed in Renminbi unless otherwise indicated)

11 Property, plant and equipment (Continued)

	Buildings held for own use RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Sub-total RMB'000	Construction in progress RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2018	2,039,747	4,310,980	559,005	73,801	6,983,533	130,127	497,050	7,610,710
Exchange adjustments	2,534	–	42	27	2,603	–	–	2,603
Additions	–	–	4,993	4,931	9,924	1,461,455	92,233	1,563,612
Transfers	2,010	384,003	2,225	224	388,462	(388,462)	–	–
Disposals	–	–	(128)	(79)	(207)	–	–	(207)
At 31 December 2018	2,044,291	4,694,983	566,137	78,904	7,384,315	1,203,120	589,283	9,176,718
Accumulated depreciation and amortisation:								
At 1 January 2018	(448,322)	(1,415,790)	(223,367)	(61,856)	(2,149,335)	–	(71,681)	(2,221,016)
Exchange adjustments	(413)	–	(41)	(8)	(462)	–	(78)	(540)
Charge for the year	(67,540)	(237,119)	(29,746)	(3,991)	(338,396)	–	(12,814)	(351,210)
Written back on disposals	–	–	42	75	117	–	–	117
At 31 December 2018	(516,275)	(1,652,909)	(253,112)	(65,780)	(2,488,076)	–	(84,573)	(2,572,649)
Net book value:								
At 31 December 2018	1,528,016	3,042,074	313,025	13,124	4,896,239	1,203,120	504,710	6,604,069

(a) Interests in leasehold land held for own use under operating leases represent land use rights with lease terms of 50 years in the PRC.

(b) As at 31 December 2018, the Group was applying for interests in leasehold land held for own use under operating leases, with net book value of RMB102,182,000 (2017: RMB78,215,000) and RMB87,652,000 (2017: nil) from the relevant PRC and Vietnam government authorities respectively.

(c) A building held for own use, with net book value of RMB45,827,000 (2017: RMB44,914,000), was secured to a bank loan (see note 21).

11 Property, plant and equipment (Continued)

The analysis of net book value of properties is as follows:

	2018 **RMB'000**	2017 RMB'000
In Hong Kong		
– medium-term leases (note 21)	**45,827**	44,914
Outside Hong Kong		
– medium-term leases	**1,986,899**	1,971,880
	2,032,726	2,016,794
Representing:		
Buildings held for own use	**1,528,016**	1,591,425
Interests in leasehold land held for own use under operating leases	**504,710**	425,369
	2,032,726	2,016,794

Notes to the Financial Statements

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12 Intangible Assets

	Software RMB'000	Emission rights of nitrogen oxides RMB'000	Total RMB'000
Cost:			
At 31 December 2017 and 1 January 2018	4,658	4,320	8,978
Additions	3,525	2,143	5,668
At 31 December 2018	8,183	6,463	14,646
Accumulated amortisation:			
At 31 December 2017 and 1 January 2018	(78)	(576)	(654)
Charge for the year	(726)	(1,114)	(1,840)
At 31 December 2018	(804)	(1,690)	(2,494)
Net book value:			
At 31 December 2018	7,379	4,773	12,152
At 31 December 2017	4,580	3,744	8,324

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

(Expressed in Renminbi unless otherwise indicated)

13 Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated:

Name of company	Place of incorporation and operation	Particulars of issued and fully paid up capital	Proportion of equity interest attributable to the Company: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Billion Industrial Investment Limited	BVI	US$1	100%	100%	–	Investment holding
Billion Development (Hong Kong) Limited ("Billion Development")	Hong Kong Special Administrative Region of the PRC ("Hong Kong")	HK$1	100%	–	100%	Investment holding and sales of raw materials
Billion Fujian (note (i))	PRC	US$555,866,000	100%	–	100%	Manufacturing and sales of polyester filament yarns products
Billion High-tech (note (i))	PRC	US$72,646,000	100%	–	100%	Manufacturing and sales of polyester thin films products
Treasure Full Global Industrial Limited ("Treasure Full")	BVI	US$1	100%	–	100%	Investment holding
Billion Industrial (Viet Nam) Co., Ltd. ("Billion Vietnam")	Vietnam	US$64,089,000	100%	–	100%	Manufacturing and sales of polyester bottle chip and polyester filament yarns

Note:

(i) These entities are wholly foreign owned enterprises established in the PRC with limited liability.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

14 Inventories

	2018 RMB'000	2017 RMB'000
Raw materials	**394,380**	278,290
Work in progress	**58,078**	31,049
Finished goods	**1,112,824**	488,403
	1,565,282	797,742

Inventories recognised as expenses and included in profit or loss are the carrying amount of inventories sold, amounting to RMB7,238,112,000 (2017: RMB6,011,995,000).

15 Trade and other receivables

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade debtors, net of loss allowance (i)	**71,482**	85,913	85,913
Bills receivable, net of loss allowance (i)	**115,334**	214,207	214,207
Deposits, prepayments and other receivables	**1,869,023**	1,011,173	1,011,173
Structured deposit (ii)	**–**	–	500,000
	2,055,839	1,311,293	1,811,293
Less: Non-current portion of deposits and prepayments	**(862,345)**	(470,418)	(470,418)
	1,193,494	840,875	1,340,875

Note:

(i) The Group has concluded that there is no material impact for the initial application of the new ECL model. (see note 1(c)(i)).

(ii) Upon the adoption of HKFRS 9, an opening adjustment as at 1 January 2018 was made to recognise the structured deposit in other financial statements (see note 1(c)(i)).

All of the current trade and other receivables are expected to be recovered or recognised as expenses within one year.

15 Trade and other receivables (Continued)

As at 31 December 2018, the Group had discounted bank acceptance bills totalling RMB1,224,889,000 (2017: RMB62,099,000) and endorsed bank acceptance bills totalling RMB152,013,000 (2017: RMB144,961,000), which are derecognised as financial assets. These bank acceptance bills matured within one year from date of issue. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

Among the discounted bank acceptance bills mentioned above, a total of RMB910,000,000 were issued by Fujian Baikai Elastic Weaving Co., Ltd., Fujian Baikai Wrap Knitting Industry Co., Ltd. and Fujian Baikai Textile Chemical Fiber Industry Co., Ltd. (together referred to as "Baikai Group"), a connected party of the Group. The underlying transactions of those bills had been fully settled by bank transfer before those bills were issued. At the request of Baikai Group, which was entitled to settle these underlying transactions by bank transfer or bills, among other means, at its own choice under the relevant contracts, the settlement method of these settled underlying transactions was revised. Billion Fujian complied with Baikai Group's request and agreed to accept the bank acceptance bills for those transactions instead and the cash proceeds received from the underlying transactions were refunded to Baikai Group. Those bank acceptance bills were tendered to the relevant banks for cash payments in accordance with the respective terms of such bills thereafter and the discount expenses were borne by Baikai Group such that the total amount received by the Group was the same as the said amount refunded to Baikai Group.

Non-current portion of deposits and prepayments represents deposits for acquisition of interests in leasehold land, property, plant and equipment, construction materials and deposits for construction service.

Current portion of deposits, prepayments and other receivables mainly represents prepayments on raw materials, interest receivable from deposits with banks and VAT recoverable.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the date of billing and net of loss allowance, is as follows:

	2018 RMB'000	2017 RMB'000
Within 1 month	**81,086**	186,579
1 to 2 months	**38,223**	73,693
2 to 3 months	**15,750**	26,760
Over 3 months	**51,757**	13,088
	186,816	300,120

Trade debtors and bills receivable are due within 90 to 210 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

16 Other financial assets

Other financial assets represent financial assets carried at FVPL.

	2018 RMB'000	2017 RMB'000
Wealth management products	**1,210,739**	2,171,077
Structured deposits (note)	**303,999**	–
	1,514,738	2,171,077

As at 31 December 2018, the Group invested in wealth management products issued by banks in the PRC with the aggregate principals amount of RMB1,200,000,000 (31 December 2017: RMB2,150,000,000). There are no fixed or determinable returns of these bank wealth management products and the returns of principals are not guaranteed.

The Group also placed principal-guaranteed structured deposits in bank in the PRC with the principal amount of RMB300,000,000 (31 December 2017: RMB500,000,000) and the term of 181 days. The expected annual rate of returns include a fixed rate of 2.40% and floating rates ranged from 1.78% to 1.82% which are indexed to the price of gold in Shanghai Gold Market.

Note: Upon the adoption of HKFRS 9, the structured deposits were reclassified to other financial assets at 1 January 2018(see note 1(c)(i)).

17 Restricted bank deposits

The restricted bank deposits of RMB251,830,000 (2017: RMB135,740,000) were pledged to the banks to secure certain bank loans (see note 21).

18 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2018 RMB'000	2017 RMB'000
Cash at bank and on hand	**455,623**	161,241

At 31 December 2018, cash at bank balances were placed with banks in the PRC amounted to RMB331,023,000 (2017: RMB138,935,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

18 Cash and cash equivalents and other cash flow information (Continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2018 RMB'000	2017 RMB'000
Profit before taxation		**934,070**	631,292
Adjustments for:			
– Bank interest income	4	**(6,056)**	(25,055)
– Net gain on sale of property, plant and equipment	5	**(21)**	(374)
– Net (gain)/loss on forward foreign exchange contracts	5	**(1,831)**	15,680
– Net gain on the other financial assets		**(106,582)**	(46,196)
– Finance costs	6(a)	**172,081**	64,988
– Amortisation of interests in leasehold land held for own use under operating lease	6(c)	**12,814**	9,935
– Amortisation of intangible assets	6(c)	**1,840**	654
– Depreciation	6(c)	**338,396**	327,916
– Government grant from deferred income	22	**(7,606)**	(17,452)
– Foreign exchange loss	5	**6,733**	5,572
		1,343,838	966,960
Increase in inventories		**(767,540)**	(301,300)
Increase in trade and other receivables		**(353,386)**	(264,397)
Increase/(decrease) in trade and other payables		**820,268**	(52,240)
Increase in deferred income		**471**	608
Cash generated from operations		**1,043,651**	349,631

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

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(Expressed in Renminbi unless otherwise indicated)

18 Cash and cash equivalents and other cash flow information (Continued)

(c) Reconciliation of liabilities arising from financing activities

Bank Loans

	Note	2018 RMB'000	2017 RMB'000
At 1 January		**3,142,646**	1,607,745
Changes from financing cash flows:			
Proceeds from new bank loans		**4,005,089**	4,240,413
Repayment of bank loans		**(3,827,830)**	(2,600,863)
Total changes from financing cash flows		**177,259**	1,639,550
Exchange adjustments		**87,194**	(104,649)
At 31 December		**3,407,099**	3,142,646

19 Trade and other payables

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade creditors and bills payable	**1,869,553**	787,829	787,829
Other payables and accrued charges	**268,186**	224,385	224,385
Equipment payables	**429,204**	47,527	47,527
Construction payables	**77,677**	29,039	29,039
Receipts in advance (note)	**–**	–	507,899
	2,644,620	1,088,780	1,596,679
Derivative financial liabilities			
– forward exchange contracts	**–**	697	697
	2,644,620	1,089,477	1,597,376

Note: As a result of the adoption of HKFRS 15, receipts in advance are included in contract liabilities (see note 20).

All of the trade and other payables are expected to be settled within one year or repayable on demand.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	2018 RMB'000	2017 RMB'000
Within 3 months	**1,291,519**	680,522
More than 3 months but within 6 months	**573,329**	105,387
More than 6 months but within 1 year	**2,894**	84
More than 1 year	**1,811**	1,836
	1,869,553	787,829

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(Expressed in Renminbi unless otherwise indicated)

20 Contract liabilities

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Billings in advance of performance (Note)	**211,784**	507,899	–

Note: Upon the adoption of HKFRS 15, amounts previously included as "Receipts in advance" under "Trade and other payables" (note 19) were reclassified to contract liabilities (see note 1(c)(ii)).

When the Group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised. The Group receives deposits on acceptance of orders on a case by case basis with customers before work commences.

The balance of contract liabilities at 1 January 2018 is all recognised as revenue during the year of 2018. The amount of billings in advance of performance received is expected to be recognised as income within one year.

21 Bank loans

At 31 December 2018, the bank loans were repayable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year or on demand	**3,295,416**	3,129,828
After 1 year but within 2 years	**11,752**	1,672
After 2 years but within 5 years	**80,257**	5,015
After 5 years	**19,674**	6,131
	111,683	12,818
	3,407,099	3,142,646

21 Bank loans (Continued)

At 31 December 2018, the bank loans were secured as follows:

	2018 **RMB'000**	2017 RMB'000
Bank loans		
– secured	**265,266**	150,230
– unsecured	**3,141,833**	2,992,416
	3,407,099	3,142,646

Certain bank loans were secured by assets of the Group as set out below:

	2018 **RMB'000**	2017 RMB'000
Properties (note 11(c))	**45,827**	44,914
Restricted bank deposits (note 17)	**251,830**	135,740
	297,657	180,654

Further details of the Group's interest rate risk are set out in note 25(c) and management of liquidity risk are set out in note 25(b).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

22 Deferred income

	2018 RMB'000	2017 RMB'000
At 1 January	**8,331**	25,175
Received during the year	**471**	608
Credit to profit or loss	**(7,606)**	(17,452)
At 31 December	**1,196**	8,331

	2018 RMB'000	2017 RMB'000
Current	**598**	7,539
Non-current	**598**	792
	1,196	8,331

Deferred income represented incentives received from two local government authorities for the Group's technology innovation research projects and recognised in profit or loss over the periods of the projects (ranged from 2 years to 4 years), from which the Company recognises as expenses the related costs for which the grants are intended to compensate.

23 Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position represents:

	2018 RMB'000	2017 RMB'000
Provision for the year	**139,405**	100,903
Over-provision in respect of prior years	**(3,517)**	(1,496)
Tax paid	**(144,614)**	(73,817)
Dividends withholding tax	**15,480**	–
	6,754	25,590
Balance of tax provision relating to prior years	**85,383**	59,793
	92,137	85,383

23 Income tax in the consolidated statement of financial position (Continued)

(b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation and amortisation of property, plant and equipment RMB'000	Other financial assets RMB'000	Others RMB'000	Total RMB'000
At 1 January 2017	153,253	781	(16,645)	137,389
Charged/(credit) to profit or loss (note 7(a))	17,954	–	(2,212)	15,742
Charged to reserves	–	2,380	–	2,380
At 31 December 2017	171,207	3,161	(18,857)	155,511
At 1 January 2018	**171,207**	**3,161**	**(18,857)**	**155,511**
Charged/(credit) to profit or loss (note 7(a))	**11,113**	**(951)**	**(1,480)**	**8,682**
At 31 December 2018	**182,320**	**2,210**	**(20,337)**	**164,193**

23 Income tax in the consolidated statement of financial position (Continued)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(s), certain subsidiaries of the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB191,410,000 (2017: RMB153,208,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

As at 31 December 2018, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB3,258,527,000 (2017: RMB3,223,063,000). Deferred tax liabilities of RMB162,926,000 (2017: RMB161,153,000) have not been recognised in respect of the withholding tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries in mainland China and the Directors have determined that these profits are not likely to be distributed in the foreseeable future.

24 Capital, reserves and dividends

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Note	Share capital note 24(c)(i) RMB'000	Share premium note 24(d)(i) RMB'000	Capital redemption reserve note 24(d)(ii) RMB'000	Exchange reserve note 24(d)(v) RMB'000	Retained profits/ Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017		18,112	589,275	1,221	(21,581)	(65,617)	521,410
Changes in equity for 2017:							
Total comprehensive income for the year		–	–	–	(25,312)	(6,525)	(31,837)
Dividends approved in respect of the previous year	24(b)	–	(91,127)	–	–	–	(91,127)
Purchase of own shares	24(c)(ii)						
– par value paid		(226)	–	–	–	–	(226)
– premium paid		–	(123,495)	–	–	–	(123,495)
– transfer between reserves		–	(226)	226	–	–	–
Dividends declared in respect of the current year	24(b)	–	(105,278)	–	–	–	(105,278)
Balance at 31 December 2017 and 1 January 2018		**17,886**	**269,149**	**1,447**	**(46,893)**	**(72,142)**	**169,447**
Changes in equity for 2018:							
Total comprehensive income for the year		**–**	**–**	**–**	**10,864**	**391,830**	**402,694**
Dividends approved in respect of the previous year	24(b)	**–**	**(145,044)**	**–**	**–**	**–**	**(145,044)**
Purchase of own shares	24(c)(ii)						
– par value paid		**(13)**	**–**	**–**	**–**	**–**	**(13)**
– premium paid		**–**	**(14,043)**	**–**	**–**	**–**	**(14,043)**
– transfer between reserves		**–**	**(13)**	**13**	**–**	**–**	**–**
Dividends declared in respect of the current year	24(b)	**–**	**–**	**–**	**–**	**(87,898)**	**(87,898)**
Balance at 31 December 2018		**17,873**	**110,049**	**1,460**	**(36,029)**	**231,790**	**325,143**

Note: The Group, including the company, has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

24 Capital, reserves and dividends (Continued)

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of HK4.7 cents per share (2017: HK5.9 cents per share)	**87,898**	105,278
Final dividend proposed after the end of the reporting period of HK5.7 cents per ordinary share (2017: HK8.4 cents per share)	**103,251**	144,309
	191,149	249,587

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK8.4 cents per ordinary share (2017: HK4.8 cents per share)	**145,044**	91,127

(Expressed in Renminbi unless otherwise indicated)

24 Capital, reserves and dividends (Continued)

(c) Share capital:

(i) Authorised and issued share capital

	Par value	Number of shares	Nominal value of ordinary shares
	HK$		HK$
Authorised			
At 31 December 2017 and 31 December 2018	0.01	10,000,000,000	100,000,000

	Note	Par value	Number of shares	Nominal value of ordinary shares	
		HK$		HK$	RMB
Issued and fully paid:					
At 1 January 2017		0.01	2,153,792,000	21,537,920	18,112,152
Repurchase of shares	24(c)(ii)	0.01	(26,848,000)	(268,480)	(225,776)
At 31 December 2017 and 1 January 2018		0.01	2,126,944,000	21,269,440	17,886,376
Repurchase of shares	24(c)(ii)	0.01	(1,636,000)	(16,360)	(13,758)
At 31 December 2018		0.01	2,125,308,000	21,253,080	17,872,618

24 Capital, reserves and dividends (Continued)

(c) Share capital: (Continued)

(ii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid RMB'000
January 2018	612,000	9.92	9.39	4,943
May 2018	994,000	12.48	10.28	8,849
July 2018	30,000	10.36	10.36	264
	1,636,000			14,056

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 1,636,000 shares were repurchased in 2018 (2017: 26,848,000) and the repurchased shares were cancelled. Accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 37(4) of the Companies Law of the Cayman Islands, an amount equivalent to the par value of the shares cancelled of RMB13,000 was transferred from share premium to the capital redemption reserve in 2018 (2017: RMB226,000). The premium paid on the repurchase of the shares of approximately HK$17,163,000 (equivalent to RMB14,043,000) and HK$143,168,000 (equivalent to RMB123,495,000) were charged to share premium for the year of 2018 and 2017 respectively.

24 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves:

(i) Share premium and distributability of reserves

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital redemption reserve

Capital redemption reserve represents the nominal amount of the shares repurchased.

(iii) Statutory reserve

Pursuant to applicable PRC regulations, Billion Fujian and Billion High-tech are required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the statutory reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiaries. The transfer to the statutory reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiaries.

(iv) Capital reserve

The capital reserve of the Group mainly represented the difference between the paid-up capital of Billion Fujian and the nominal value of shares issued by the Company in exchange during the Group's reorganisation in 2011.

(v) Exchange reserve

Exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside mainland China.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

24 Capital, reserves and dividends (Continued)

(d) Nature and purpose of reserves: (Continued)

(vi) Fair value reserve

The fair value reserve comprises the net change in the fair value of available-for-sale securities held at the end of the reporting period.

(vii) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. As at 31 December 2018 and 2017, the Group's debt ratio, being the Group's total liabilities over its total assets, was 52.3% and 47.6% respectively.

25 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade and other receivables

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, restricted bank deposits and derivative financial assets is limited because the counterparties are the major banks in the PRC with established credit ratings, for which the Group considers to have low credit risk. Given the high credit ratings of the banks, management does not expect any counterparties to fail to meet its obligations.

25 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 9.6% (2017: nil) and 10.9% (2017: 12%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 to 210 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	**Gross carrying amount** RMB'000	**Loss allowance** RMB'000
Current (not past due)	0.01%	177,044	18
Less than 1 month past due	0.10%	3,296	3
1 to 3 months past due	1.00%	6,550	66
3 months to 1 year past due	10.00%	14	1
More than 1 year	100.00%	22	22
		186,926	110

25 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(k)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, no trade receivables was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	295,253
Less than 1 month past due	4,042
1 to 3 months past due	477
3 months to 1 year past due	348
	300,120

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

25 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

Comparative information under HKAS 39 (Continued)
Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 **RMB'000**
Balance at 31 December under HKAS 39	–
Impact on initial application of HKFRS 9 (note 1(c)(i))	–
Balance at 1 January	–
Amounts written off during the year	–
Impairment losses recognised during the year	**110**
Balance at 31 December	**110**

The Group has concluded that there is no significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2018.

As set out in note 15, at 31 December 2018, the Group had discounted bank acceptance bills totalling RMB1,224,889,000 (2017: RMB62,099,000) and endorsed bank acceptance bills totalling RMB152,013,000 (2017: RMB144,961,000), which are derecognised as financial assets. The transferees have the right to recourse to the Group in case of default by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. The Group's maximum loss in case of default is RMB1,376,902,000 for these discounted or endorsed bills. Nonetheless, the Group only accepts bank acceptance bills issued by major banks in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant.

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(Expressed in Renminbi unless otherwise indicated)

25 Financial risk management and fair values (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the head office when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the respective end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
Bank loans	3,298,282	15,037	86,348	23,792	3,423,459	3,407,099
Trade creditors and bills payable	1,869,553	–	–	–	1,869,553	1,869,553
Other payables and accrued charges	268,186	–	–	–	268,186	268,186
Equipment payables	429,204	–	–	–	429,204	429,204
Construction payables	77,677	–	–	–	77,677	77,677
	5,942,902	15,037	86,348	23,792	6,068,079	6,051,719

25 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

	As at 31 December 2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
Bank loans	3,129,828	1,982	5,687	8,172	3,145,669	3,142,646
Trade creditors and bills payable	787,829	–	–	–	787,829	787,829
Other payables and accrued charges	224,385	–	–	–	224,385	224,385
Equipment payables	47,527	–	–	–	47,527	47,527
Construction payables	29,039	–	–	–	29,039	29,039
	4,218,608	1,982	5,687	8,172	4,234,449	4,231,426
Derivatives settled gross						
– outflow	(10,496)	–	–	–	(10,496)	
– inflow	9,799	–	–	–	9,799	

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(Expressed in Renminbi unless otherwise indicated)

25 Financial risk management and fair values (Continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings at the end of the reporting period:

	As at 31 December			
	2018		2017	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Net fixed rate borrowings/ (deposits):				
Bank loans	**2.85%-4.78%**	**1,216,667**	1.15%-4.35%	1,167,776
Restricted bank deposits	**1.50%**	**(251,830)**	1.50%	(135,740)
		964,837		1,032,036
Variable rate borrowings/ (deposits):				
Bank loans	**1.22%-4.36%**	**2,190,432**	1.92%-2.59%	1,974,870
Cash and cash equivalents	**0.0001%-0.35%**	**(455,623)**	0.0001%-0.35%	(161,241)
		1,734,809		1,813,629
Total net borrowings		**2,699,646**		2,845,665

25 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB22,947,000 (2017: RMB24,188,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. This analysis is performed on the same basis for 2017.

(d) Currency risk

The Group is exposed to currency risk primarily through bank borrowings, sales and purchases that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars ("USD"), HK$ and Euros ("EUR"). Presently, the Group has no hedging policy with respect to the foreign exchange exposure.

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25 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

(i) Exposure to currency risk

The following table details the Group's major exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than RMB which is the functional currency of Billion Fujian and Billion High-tech. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	Exposure to foreign currencies (expressed in RMB) As at 31 December					
	2018			2017		
	USD RMB'000	**HK$ RMB'000**	**EUR RMB'000**	USD RMB'000	HK$ RMB'000	EUR RMB'000
Trade and other receivables	**87,811**	**–**	**–**	95,438	–	–
Cash and cash equivalents	**16,987**	**138**	**1,087**	7,505	132	275
Trade and other payables	**(155,477)**	**–**	**(6,543)**	(192,506)	–	(7,509)
Gross exposure arising from recognised assets and liabilities	**(50,679)**	**138**	**(5,456)**	(89,563)	132	(7,234)
Notional principal amounts of forward contracts	**–**	**–**	**–**	9,801	–	–
Net exposure arising from recognised assets and liabilities	**(50,679)**	**138**	**(5,456)**	(79,762)	132	(7,234)

In response to the foreign currency risk of loans denominated in USD, HK$ and EUR, the Group has entered into forward exchange rate contracts which are accounted for as financial derivative instruments. These derivatives had not been designated as hedges for accounting purposes. Accordingly, the fair value gain/(loss) were recognised in the Group's income statement. The settlement date of the forward exchange contract held by the Group as at 31 December 2018 is 12 December 2019.

25 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	As at 31 December			
	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
USD	**5%**	**(2,154)**	5%	(3,390)
	(5%)	**2,154**	(5%)	3,390
HK$	**5%**	**6**	5%	6
	(5%)	**(6)**	(5%)	(6)
EUR	**5%**	**(232)**	5%	(307)
	(5%)	**232**	(5%)	307

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the end of the reporting period for presentation purposes.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (Continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of non-PRC incorporated subsidiaries into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Fair values measurement

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

25 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

		Fair value measurements as at 31 December 2018 using		
	Fair value at 31 December 2018 RMB'000	Quoted prices in active market for identified assets (Level 1) RMB'000	Significant other observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000
Recurring fair value measurement				
Other financial assets	**1,514,738**	–	**1,514,738**	–

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 Financial risk management and fair values (Continued)

(e) Fair values measurement (Continued)

(i) Financial assets and liabilities measured at fair value (Continued)

Fair value hierarchy (Continued)

		Fair value measurements as at 31 December 2017 using		
	Fair value at 31 December 2017	Quoted prices in active market for identified assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial assets:				
Available-for-sale equity instruments				
– Unlisted	2,171,077	–	2,171,077	–
Financial liabilities:				
Derivative financial instruments:				
– Forward exchange contracts	697	–	697	–

During the years ended 31 December 2017 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of other financial assets in Level 2 is determined by discounting the expected future cash flows estimated based on expected return at risky rate, which is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

The fair value of forward exchange contracts in Level 2 is measured using quoted prices in active markets for similar financial instruments.

26 Commitments

(a) Capital commitments outstanding at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Authorised but not contracted for	**1,480,499**	3,176,350
Contracted for	**1,638,920**	961,740
	3,119,419	4,138,090

(b) At 31 December 2018, the total future minimum lease payments under a non-cancellable operating lease were payable as follows:

	2018	2017
	RMB'000	RMB'000
Within 1 year	**1,130**	1,272
After 1 year but within 5 years	**4,519**	5,089
Over 5 years	**6,350**	3,567
	11,999	9,928

The Group is the lessee in respect of oil storage area and warehouse held under an operating lease. The lease runs for an initial period of 10 to 41 years. It does not include contingent rentals.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 Material related party transactions

During the year, transactions with the following parties are considered to be related party transactions:

Name of related party	Relationship
Hong Kong (Rong An) Investment Limited	One of the shareholders of the Company and holding 37.83% of the Company's issued share capital
Mr. Sze Tin Yau	Director of the Company and holding 30.29% of the Company's issued share capital
Mr. Wu Jinbiao	Director of the Company and holding 6.44% of the Company's issued share capital
Mr. Wu Jianshe	Key management personnel during the year
CECEP Costin New Materials Group Limited* ("CECEP Costin") 中國節能海東青新材料集團有限公司 and its subsidiaries ("CECEP Costin Group")	Subsidiary of Hong Kong (Rong An) Investment Limited

* The English translation of the name is for reference only. The official name of the entity is in Chinese.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	**5,233**	6,090
Post-employment benefits	**91**	93
	5,324	6,183

Total remuneration is included in "staff costs" (see note 6(b)).

27 Material related party transactions (Continued)

(b) Transactions with related parties

The Group entered into the following related party transactions during the year:

	2018 RMB'000	2017 RMB'000
Sales of goods		
CECEP Costin Group	–	5,587
Purchase of materials		
CECEP Costin Group	–	–

Note:

(i) The directors have confirmed that the terms of the above transactions are no less favourable to the Group than terms available to or from independent third parties.

(c) Balances with related parties

	2018 RMB'000	2017 RMB'000
Trade payable to CECEP Costin Group	–	6
Receipt in advances from CECEP Costin Group	–	1

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 Material related party transactions (Continued)

(d) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of CECEP Costin Group above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraphs headed "(A) Connected transactions – continuing connected transactions" of the Report of the directors.

28 Company-level statement of financial position

	Note	**2018 RMB'000**	2017 RMB'000
Non-current assets			
Investments in subsidiaries	13	**–**	–
Current assets			
Trade and other receivables		**858,959**	418,224
Cash and cash equivalents		**74,868**	5,117
		933,827	423,341
Current liabilities			
Bank loans		**455,554**	–
Trade and other payables		**153,130**	253,894
		608,684	253,894
Total assets less current liabilities		**325,143**	169,447
NET ASSETS		**325,143**	169,447
CAPITAL AND RESERVES	24(a)		
Share Capital		**17,873**	17,886
Reserves		**307,270**	151,561
TOTAL EQUITY		**325,143**	169,447

(Expressed in Renminbi unless otherwise indicated)

29 Comparative figures

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

30 Jointly controlling parties

At 31 December 2018, the directors consider the jointly controlling parents of the Group to be Hong Kong (Rong An) Investment Limited incorporated in Hong Kong and Kingom Power Limited incorporated in the BVI.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

HKFRS 16, Leases

As disclosed in note 1(j), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group mainly enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

31 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018 (Continued)

HKFRS 16, Leases (Continued)

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 26(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to RMB11,999,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to RMB7,874,000 and RMB7,874,000 respectively, after taking account the effects of discounting, as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

Financial Summary

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**8,602,033**	7,025,317	6,125,251	5,461,403	6,301,466
Cost of sales	**(7,238,112)**	(6,011,995)	(5,413,436)	(4,870,772)	(5,715,541)
Gross profit	**1,363,921**	1,013,322	711,815	590,631	585,925
Profit before taxation	**934,070**	631,292	388,153	273,123	253,929
Income tax	**(160,050)**	(115,149)	(72,802)	(71,235)	(50,384)
Profit for the year	**774,020**	516,143	315,351	201,888	203,545

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**4,980,967**	4,606,675	2,981,139	3,183,218	4,080,620
Non-current assets	**7,478,566**	5,868,436	5,653,209	5,718,562	5,737,324
Total assets	**12,459,533**	10,475,111	8,634,348	8,901,780	9,817,944
Current liabilities	**6,244,555**	4,820,126	3,301,990	3,603,422	4,461,792
Non-current liabilities	**276,474**	169,121	160,704	134,372	117,137
Total liabilities	**6,521,029**	4,989,247	3,462,694	3,737,794	4,578,929
Net assets	**5,938,504**	5,485,864	5,171,654	5,163,986	5,239,015
Share capital	**17,873**	17,886	18,112	18,317	18,572
Reserves	**5,920,631**	5,467,978	5,153,542	5,145,669	5,220,443
Total equity	**5,938,504**	5,485,864	5,171,654	5,163,986	5,239,015

Notes to the five year summary:

1. As a result of the adoption of HKFRS 15, Revenue from contracts with customers, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.

2. The Group adopted HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.