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 2019

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 the People's Republic of China (the "PRC"). The polyester filament yarns products of the Group are positioned at middle and high-end markets in China 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.

As at 31 December 2019, the Group's designed capacity of polyester filament yarns in China was 2,726,000 tons, of which the designed capacity of FDY and POY was 1,005,000 tons per year, while that of DTY was 711,400 tons per year. The combined designed capacity for DTY, FDY and POY was 1,716,400 tons per year, which made it the largest differentiated chemical fiber production base in Fujian Province.

As at 31 December 2019, the Group's designed capacity for polyester thin films in China was 255,000 tons per year, of which, the designed capacity of biaxially-oriented polyethylene terephthalate ("BOPET") thin films was 182,500 tons per year, and the Group 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 PRC applying in the segments including soft packaging, composite printing, electronic appliances, 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.

Company Profile

In order to further expand overseas markets, the Group has established Billion Industrial (Viet Nam) 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. This project commenced production on 29 September 2019 officially. As of 31 December 2019, the designed capacity of Billion Vietnam of polyester filament yarns was 348,300 tons per year, of which, the designed capacity of FDY and POY was 92,800 tons per year, and that of DTY was 55,500 tons per year. The combined designed capacity for DTY, FDY and POY was 148,300 tons per year, marking a milestone during the Group's journey in exploring the emerging markets.

In addition, 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 they are expected to gradually commence commercial production in the second quarter of 2020.

In recent years, the consumption of polyester thin films in China has been increasing. As a large polyester thin film manufacturer in China, by expanding the existing polyester thin film business, the Company will be able to enjoy the growth of this market by leveraging its existing scale and expertise in the manufacturing of polyester thin films. In this regard, the Group is investing approximately US$230 million to set up a production line for polyester thin films over a period of three years from 2019 to 2021. The estimated gross capacity upon completion will be approximately 255,000 tons per annum.

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 Industry 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"

2019

- Billion Vietnam commenced production officially
- A new production line of polyester thin films is expected to be materialized during 2019 to 2021 with the investment amounting to approximately US$230 million and the estimated annual capacity of 255,000 tons
- Billion Fujian was enlisted in "Top 100 Private Enterprises in Fujian Province"
- Billion Fujian was enlisted in "China's Top 500 Private Enterprises in the Manufacturing Sector"
- Billion Fujian was enlisted in the "2019 Top 100 Enterprises in Fujian Province" and "2019 Top 100 Enterprises in the Manufacturing Sector in Fujian Province"

Corporate Information

Board of Directors

Executive Directors

Mr. Sze Tin Yau *(Co-chairman)*
Mr. Wu Jinbiao
(Chief executive officer)

Non-executive Director

Mr. Zhang Shengbai *(Co-chairman)*
(appointed on 18 May 2019)
Mr. Zeng Wu *(Co-chairman)*
(resigned on 18 May 2019)

Independent Non-executive Directors

Mr. Chan Shek Chi
Mr. Shih Chun Pi
Mr. Lin Jian Ming
(appointed on 18 May 2019)
Mr. Ma Yuliang
(resigned on 18 May 2019)

Board Committees

Audit Committee

Mr. Chan Shek Chi *(Chairman)*
Mr. Shih Chun Pi
Mr. Lin Jian Ming
(appointed on 18 May 2019)
Mr. Ma Yuliang
(resigned on 18 May 2019)

Remuneration Committee

Mr. Chan Shek Chi *(Chairman)*
Mr. Sze Tin Yau
Mr. Lin Jian Ming
(appointed on 18 May 2019)
Mr. Ma Yuliang
(resigned on 18 May 2019)

Nomination Committee

Mr. Sze Tin Yau *(Chairman)*
Mr. Chan Shek Chi
Mr. Shih Chun Pi

Corporate Governance Committee

Mr. Sze Tin Yau *(Chairman)*
Mr. Wu Jinbiao

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 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
Public Interest Entity Auditor
registered in accordance
with the Financial Reporting
Council Ordinance

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		
	2019	2018	Change
	RMB'000	RMB'000	
Operational Results			
Revenue	**9,396,866**	8,602,033	9.2%
Gross profit	**1,616,946**	1,363,921	18.6%
Profit from operations	**1,280,405**	1,106,151	15.8%
Profit for the year	**853,222**	774,020	10.2%

	As at 31 December		
	2019	2018	Change
	RMB'000	RMB'000	
Financial Position			
Non-current assets	**9,701,232**	7,478,566	29.7%
Non-current liabilities	**646,849**	276,474	134.0%
Current assets	**6,791,170**	4,980,967	36.3%
Current liabilities	**9,185,093**	6,244,555	47.1%
Net current liabilities	**2,393,923**	1,263,588	89.5%
Total equity	**6,660,460**	5,938,504	12.2%
Earnings per Share (RMB)	**0.40**	0.36	
Interim dividend (HK cent)	**–**	4.70	
Final dividend (HK cent)	**–**	5.70	
Key Ratio Analysis			
Gross profit margin	**17.2%**	15.9%	
Operating profit margin	**13.6%**	12.9%	
Net profit margin	**9.1%**	9.0%	
Returns on equity (Note 1)	**12.8%**	13.0%	
Current ratio (Note 2)	**0.74**	0.80	
Gearing ratio (Note 3)	**147.6%**	109.8%	

Notes:

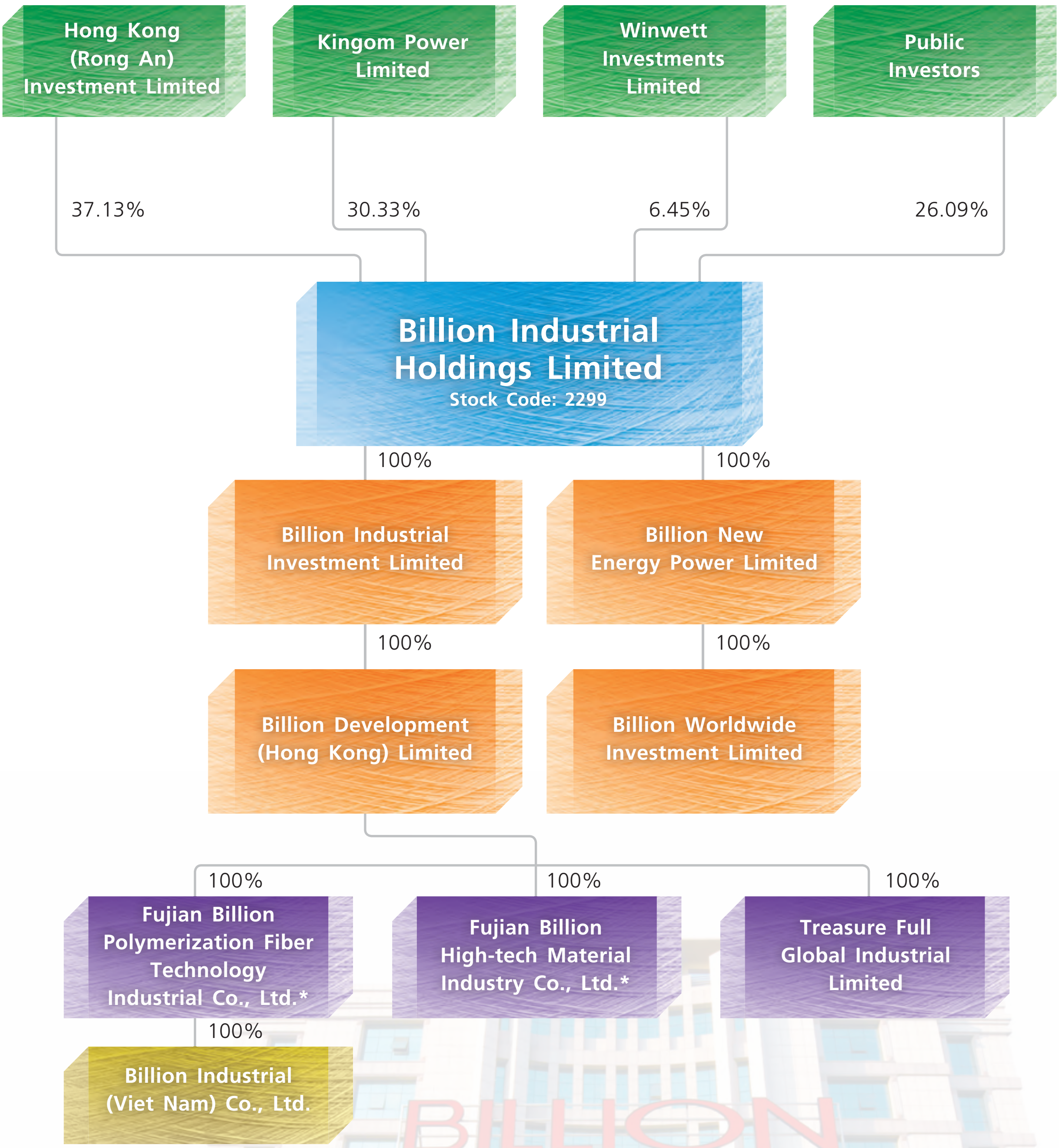
1: Returns on equity: Profit for the year divided by total equity

2: Current ratio: Current assets divided by current liabilities

3: Gearing ratio: Total liabilities divided by total equity

Company Structure

as at 31 December 2019



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 Industry 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

After the Group's production site E was formally put into production, its overall production capacity increased, and coupled with the Group's active development of the differentiated products and new functional products with higher added-value, both the overall sales revenue and sales volume of the Group maintained steady growth.

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 2019.

In 2019, China's textile industry strived to overcome the adverse effects of weakening foreign market demand and rising protectionism and other unfavourable factors, and actively explored emerging markets. In addition, the rebound of the domestic textile industry and the increase in foreign demand have supported the demand for the polyester filament industry. With the increase of national income, the optimisation of the population structure, the continuous advancement of consumption upgrades and the constant achievement from the "Belt and Road" Initiative, the prosperity of the textile industry remains optimistic. As the largest manufacturer of polyester filament yarns in South China and one of the China's top 500 private enterprises, the Group, by adhering to the vision and mission of "aspiring to be the world's premier supplier of consumer product materials, providing eco-friendly products for the public", continued the development of differentiated chemical fiber and functional environmentally friendly polyester thin film products with the attitude of honesty, trustworthiness and diligence.

Chairman's Statement

The research and development team of the Group continued to collaborate with universities and institutions and invested a significant amount of funds and resources for research and development. The Academician Expert Work Station was launched to carry out special scientific research and cooperation. During the year under review, the "Large-capacity melt direct spinning ultrafine polyester filament yarn engineering technology development" (大容量熔體直紡超細旦滌綸長絲工程技術的開發) project jointly undertaken by the Group, Donghua University and State Grid Jinjiang Power Supply won the "Second Class of Science and Technology Progress Award of Fujian Province". Such project represents China's first large-scale mass production of melt direct spinning of ultrafine polyester filament yarns possessing core patent technology. The award is testimony to our concept of emphasizing on and persisting to pursuing the technology innovation approach of a combination of "Production, Learning, Research and Application". In addition, after the Group's production site E was formally put into production, its overall production capacity increased, and coupled with the Group's active development of the differentiated products and new functional products with higher added-value, both the overall sales revenue and sales volume of the Group maintained steady growth.

Our "700,000-ton differentiated chemical fiber project" in Tay Ninh, Vietnam, has been officially put into operation on 29 September 2019. The project is equipped with 2 FDY production lines, 8 spinning POY production lines and 130 texturing machines, with an aim to forming differentiated chemical fiber production capacity of 200,000 tons. In terms of process technology, the polyester adopted the latest technology of China Textile Industry Design Institute, and the spinning production line realized intelligent production control and automated process monitoring through a series of automated methods such as robotic doffing, robotic packaging, automatic product appearance inspection, and three-dimensional automatic storage. The project of Billion Vietnam has also been listed in the "MOU for Sino-Vietnam Production Capacity Cooperation Project List", which is of great significance in many aspects such as promoting Sino-Vietnam production capacity cooperation and enhancing the global competitiveness of Chinese textile enterprises.

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 polyester industrial yarns project is currently in full swing. The project introduced the latest model of German Barmag high-speed winder, which can produce a full range of products including ordinary high-strength, low-shrink, ultra-low-shrink, activated, anti-wicking and water-repellent, car seat belt wear-resistant and special sewing thread and non-ferrous type, and is equipped with plied and twisted lines and twisting device to enrich the product structure. Industrial silk products will serve various fields with high quality, high starting point and specialization, including hoisting belts, conveyor belts, car seat belts, canvas, teslin, coated cloth, fire hoses, oil and water pipelines, geotextiles and so on. The project includes a total of 16 spinning production lines with a total capacity of approximately 250,000 tons per annum, while the quality management department will include 3 automatic packing lines and is expected that the production will begin gradually from the second quarter of 2020.

Chairman's Statement

Different from the production process of polyester filament, industrial yarn has a solid phase polymerization device which can increase the viscosity through solid phase polycondensation. In addition, there are 5–6 pairs of industrial silk winding hot rolls. The tensile strength is controlled by winding hot rolls, and physical properties are controlled. Different strengths have different uses. In addition, our industrial silk automation equipment is made through cooperation with Beijing Machinery Industry Automation Research Institute Co., Ltd. in the textile industry, of which the degree of automation is the highest and most advanced in China and even in the world. We will continue providing our customers with high-end and high quality products, and gradually expand the market of polyester industrial yarn in China.

Billion Fujian has been recognised as "State Enterprise Technology Centre", "High-Tech Enterprise" and "Innovation Demonstration Enterprise" for years. The Group owns laboratories with national certifications and national level enterprise technology centres. The Group has a first-class technology research and development team with various products and technologies development efforts reaching both the domestic and the world's leading standards, and owns certain patents. Our 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 centre as the core, relatively centralised research and development strength, professional technical support and accelerating commercialisation of research achievements. Most of our key equipment is imported from Germany and Japan which is of international first-class equipment standards. High quality equipment provides the Group with strong guarantee of product innovation and technology innovation.

Besides scientific research technology, we also highly value the development of each employee of the Group. We believe staff is a key element of our success, while the balance between work and life, positive response to staff opinion and suitable orientation training, on-the-job training and technical training are indispensable parts of our job. we will continue to recruit employees on a merit basis, adhering to the belief of "Human-oriented Philosophy, Factory based Family and Co-development" to ensure fair and equitable protection to all staff (including the management).

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. 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. During the year under review, the Company repurchased its 3,210,000 shares in the secondary market, representing 0.15% of the total share capital of the Company in issue before the repurchase, which fully showed the confidence of the management of the Company in operation and outlook of the Group.

Chairman's Statement

We have always been concerned about the country. In response to the outbreak of the novel coronavirus pneumonia epidemic, the Group donated RMB3 million to support the prevention and control of the epidemic. We take the initiative to set up a health management centre in the enterprise and observe the isolation of workers returning from other provinces. In addition, in view of the current shortage of masks, the Group decided to start production in advance to provide polyester yarn raw material of earbands which are in need for mask manufacturers to support the country's fight against epidemics. In 2020, China's textile industry will maintain a steady and increasing trend overall. Upon the completion of the expansion projects including the polyester industrial yarn project and polyester thin film project, the scale of the Group will be further expanded and the sales volume and sales revenue of products will be further increased. 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. Although the expansion of the novel coronavirus pneumonia epidemic has an uncertain impact on the overall textile industry and the sales of the Group, we will pay close attention to the situation of the novel coronavirus pneumonia epidemic and market, and assess the impact on the operation and finance of the Group, the management of the Group and I will continue to lead the Group to move forward, work diligently and respond quickly to economic changes 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

20 March 2020

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

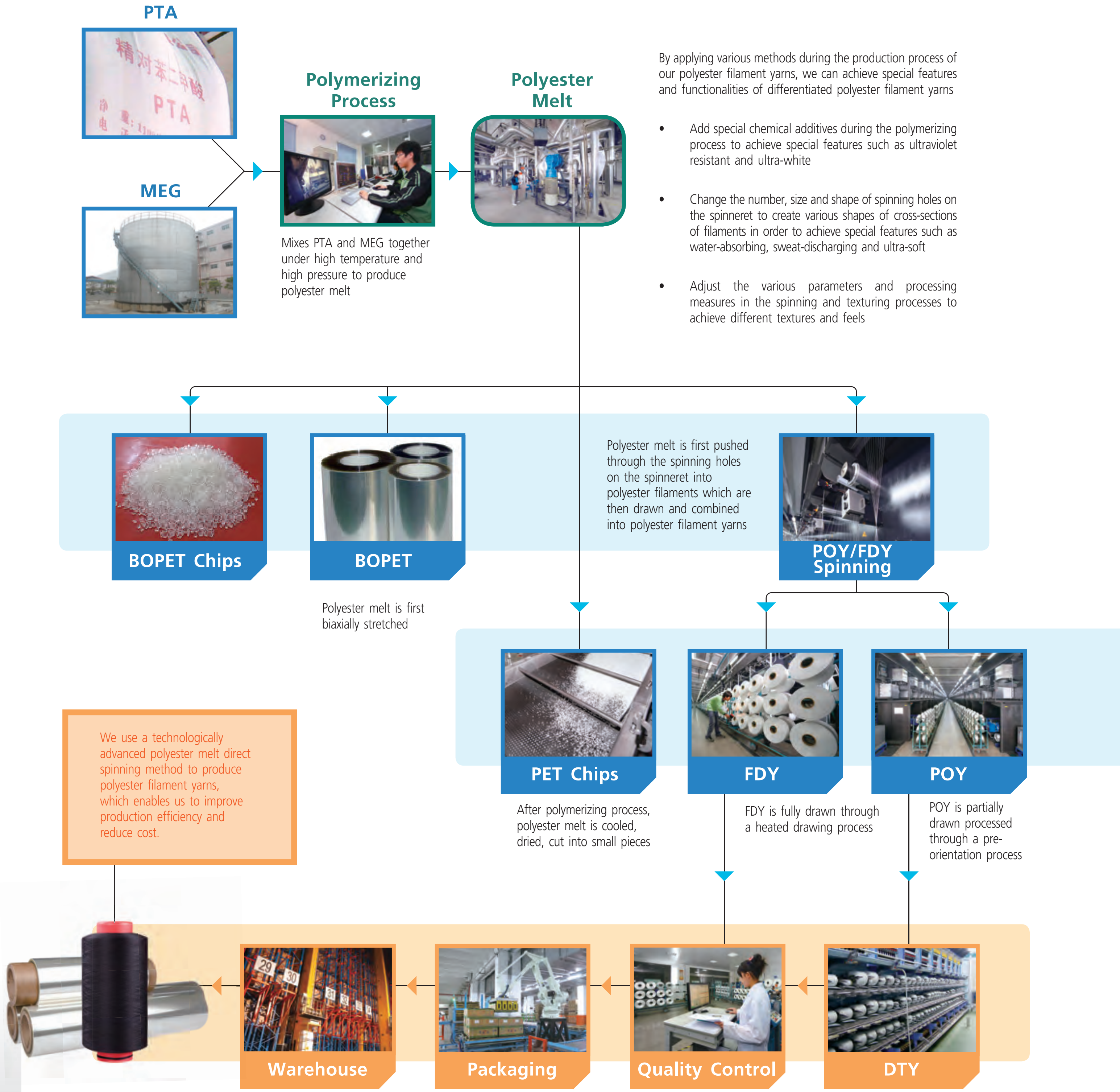
Designed capacity as at 31 December 2019:

FDY+POY : 1,097,800 tons per year
DTY : 766,900 tons per year
BOPET : 182,500 tons per year
BOPET Chips : 72,500 tons per year

Vietnam Production Site

Situated in the Phuoc Dong Industrial Park, Phuoc Dong Commune, Go Dau District, Tay Ninh Province, Vietnam

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 2019, the Sino-US trade war continued to heat up, by which the world trade was unavoidably significantly affected. An agreement was certainly expected by all countries. The outcome of the negotiations will be related to the US's strategy and tactics for China, and will also affect future global trade and development. In 2019, the purchasing manager index ("PMI") for the manufacturing industry in the globe was fixed at 50.1%, and that for the manufacturing industry in Europe was 48.7%, a significant decrease of 5.6 percentage points from the same period last year, becoming a major pusher of downturn in manufacturing industry of the globe. In addition, the PMI for the manufacturing industry in the Americas was 51.2%, a decrease of 6.5 percentage points from the same period of last year, showing a trend of high to low, which was mainly because the manufacturing industry in the US has turned from strong to weak. Compared with the obvious decline in manufacturing in Europe and the Americas, the manufacturing industry in Asia has shown a steady downward trend. In 2019, the average PMI for manufacturing in Asia was 50%, a decrease of 1.6 percentage points from the same period last year, and the trend was relatively mild.

A World Bank report published in December stated that Chinese economy remained relatively resilient under the support of strong real disposable income growth, and a looser policy posture indicated that some impacts and other external factors were alleviated. The external risks faced by the Chinese economy are mainly from major economies, especially in some European countries, where the economic slowdown has exceeded expectations, and global trade and investment have weakened. However, Chinese economy has shifted from high-speed growth to high-quality development. From the perspective of economic growth throughout 2019, although the Chinese economy has fluctuated slightly, it has generally met expectations. It ranks among the top economies in the world. According to the National Bureau of Statistics of the PRC, China's gross domestic product was close to RMB100 trillion in 2019, representing a growth of 6.1% with the per capita income exceeds US$10,000, which is well enough to drive the improvement of Chinese people's average living standard and 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 RMB1,351.7 billion in 2019, representing a year-on-year growth of 2.9%, among which, the sales in December 2019 was RMB149.0 billion, representing a year-on-year increase of 1.9%. In the face of rising risks and challenges at home and abroad and complex issues, China has deepened supply-side structural reforms and stepped up counter-cyclical adjustments. Its economy kept moving forward in the direction of "seeking progress in stability, making progress in stability and having improvement in stability". However, the continuing of the epidemic has subsequently affected various economic activities.

INDUSTRY REVIEW

In recent years, China's textile industry as a whole has maintained a steady and increasing trend, and the retail is steadily improving. In 2019, China's textile industry worked hard to overcome the adverse effects of weakening foreign market demand and rising protectionism, actively explored emerging markets, and basically maintained a stable operation. With the increase of people's awareness of environmental protection, the environmental protection work of the textile industry has become increasingly concerned, and the manufacturers of the textile industry have become more diversified, innovative and environmentally friendly. Consumption upgrades have increased the concentration of the textile industry, stricter quality requirements have helped the brand's market share increase, and industry resources are gradually concentrated to the leading companies. Smart manufacturing will continue to be an important development direction for the textile industry in the future.

Management Discussion and Analysis

Driven by economic and population growth, global fiber consumption and per capita consumption will continue to grow in the future. In addition, the rebound in the domestic textile industry and the increase in foreign demand have supported the demand for the polyester filament yarns industry. With the increase in national income, the optimisation of the population structure, the continuous promotion of consumption upgrades, and the emerging of the results of the "Belt and Road" Initiative, the prospects of the textile industry continues to be good. However, due to the impact on the expansion of the novel coronavirus pneumonia epidemic, there may be some uncertainties and short-term impacts in the textile industry.

On the other hand, Chinese polyester thin film manufacturers are increasingly focusing on brand development. While exploring the markets of European and American countries, they are also actively exploring the markets of Southeast Asia, Russia, the Mediterranean and other countries and regions. Chinese polyester thin film manufacturers have already occupied a certain share in the international market, and its international competitiveness is gradually improving.

BUSINESS REVIEW

Stable growth

By always 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". Aiming at "technology innovation and improving competitive strength", we persist to pursuing the technology innovation approach of a combination of "Production, Learning, Research and Application". 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. The Group enjoyed scalable cost advantages through introducing large-scale and advanced production equipment. Most of our key equipments 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.

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 attaches great importance to the introduction and cultivation of talents. The talent strategy of "recruiting employees with due care and connecting people with heart (招人留心、用人連心)" attracts more people of insight to join the business. We have cooperated with Donghua University to establish a talents practice base, and we have become an enterprise with excellent research and development talents. The Group has a research and development team, comprising over 600 senior technicians from all around the country, 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 prices and spreads of polyester filament yarn were stronger than those in the same period in history. Benefiting from the economic cycle and the rise of the crude oil price, the price trend of polyester products was relatively strong, and the market demand for the Group's products remained strong. In addition, the polyester filament yarn project of Billion Vietnam has officially started production. The sales volume and sales revenue of the Group continued to grow steadily. During the year under review, the Group's differential products accounted for 70.2% 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.

Project development and product research and development

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, we strived to establish a digitalised and intelligentised automatic chemical fiber production workshop, and became the industry front runner of realising the full process intelligent automatic production. By leveraging on digitalisation, networking and modularisation of automatic equipment, the Group keeps on improving its products' quality and production volume.

The management team of the Group applied scientific management software to (i) achieve networking and informatisation 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 increasing the strengths of product differentiation. During the year under review, several projects of the Group were listed in the "Fujian 2019 Key Project List".

The Group has strong scientific research strengths. Its technology centre was awarded as the "State Enterprise Technology Centre" and its fiber testing centre gained the recognition of CNAS National Laboratory. The Academician Expert Work Station was launched to carry out special scientific research and cooperation. The "Large-capacity melt direct spinning ultrafine polyester filament yarn engineering technology development" (大容量熔體直紡超細旦滌綸長絲工程技術的開發) project jointly undertaken by the Company, Donghua University and State Grid Jinjiang Power Supply won the "Second Class of Science and Technology Progress Award of Fujian Province", which is testimony to the innovation and research and development efforts of the Group. Such project represents China's first large-scale mass production of melt direct spinning of ultrafine polyester filament yarns possessing core patent technology. The overall technology level of the project is leading its peers in China. In the course of research of the project, we have successfully developed the polyester structural control and trace modification technology, polyester melt instant dynamic synergy control technology, melt homogenization and high stability filament formation technology as well as high efficiency and quality and increased elasticity engineering technology. We have overcome the bottlenecks arising from the conflicts between the polyester crystallization process and the process of increased elasticity of ultrafine polyester filament yarns and the difficulties in ultrafine fiber melt homogenization and high stability filament formation with control over yarn levelness and dye uniformity. We have also set up a systematic and scientific system for ultrafine polyester filament yarns FDY and DTY full process quality control technologies and standards, thus forming an independent intellectual property rights system comprising procedural control, product development and device modification.

Management Discussion and Analysis

In addition, the Group's industrial yarn project in the F zone is in full swing. The F zone project introduces the latest model of German Barmag high-speed winder, which can produce a full range of products, including ordinary high-strength, low-shrink, ultra-low-shrink, activated type, anti-wicking and water-repellent type, car seat belt wear-resistant type, special sewing thread type, non-ferrous type, etc., and it is equipped with plied and twisted lines and twisting equipment to enrich the product structure. The Group will provide customers with high-end quality products and gradually occupy the market. We have been committed to constructing our industrial yarn projects with the belief of "high quality, high starting point, specialization, and serving various fields". The Group's industrial yarn automation equipment is the highest in degree of automation and the most advanced device in the textile industry at home and abroad. Each yarn at the spinning heat roller is equipped with an in-line filament detector, which can be detected by the yarn passing device. Unlike the manual, which can only detect filaments on the surface, cross-section, and bottom of the filament, the in-line filament detector can also detect the filaments that are not visible to the naked eye inside the tow, which is more accurate. From the central control room, the information of each filament can be seen. The filament detection system data is connected to the automatic packaging line. The system can automatically identify by location information and grade according to the condition of wool.

Billion Fujian and Billion High-tech, principal subsidiaries of the Group, both have been awarded as high technology enterprises. For the year ended 31 December 2019, revenue generated from the Group's differentiated products amounted to RMB6,595,432,000, accounting for 70.2% of its total revenue for the year, representing an increase of RMB700,399,000 or 11.9% as compared to 2018. 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.

As of 31 December 2019, the Group owned 108 national patents registered in China and had applied for 116 national patents. Among all of the Group's patented products, 70 of them have already been applied to our products sold to customers. Our research and development expenditure was RMB297,481,000 in 2019, 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.

Market development

As a core region of Maritime Silk Road in the 21st Century, Fujian Province has been committed to building a cutting-edge platform for foreign trade and economic cooperation in recent years. With the implementation and deepening of the "Belt and Road" initiative, Fujian enterprises have become increasingly active in "going global". As a leading enterprise in Fujian, the Group actively responded to the national call and decided to invest in Vietnam to build a polyester factory as early as 2016. After more than two years of preparation, the "700,000-ton differentiated chemical fiber project" that we invested in Tay Ninh, Vietnam, was formally put into operation on 29 September 2019. The project will become a demonstration platform for China-Vietnam production capacity cooperation, and it also marks a major step forward for the development of the Group. The project is equipped with 2 full draft yarns and 8 pre-oriented yarn production lines, and 130 high-speed texturing machines for drawn textured yarns, with the goal of forming a 200,000-ton differentiated chemical fiber production capacity. In terms of process technology, polyester adopts the latest process technology of China Textile Industry Design Institute, and the spinning production line realizes intelligent production control and automatic monitoring of the process through a series of automated means such as robot doffing, robot packaging, automatic product appearance inspection, and three-dimensional automatic storage. Billion Vietnam is of iconic significance to the Group's expansion into emerging markets.

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 centre, 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 RMB52,137,000 or 4.6% as compared to the same period in 2018, which represented a further increase in brand popularity and market share in overseas markets.

Production capacity expansion

The Group is 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, which were going into production during the year under review, marking 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 is investing approximately US$185 million to set up a production line for polyester industrial yarn products, which is in the process and leading the Group to expand this business. The total production capacity of the new manufacturing facilities will be approximately 250,000 tons per annum and they are expected to gradually commence commercial production in the second quarter of 2020.

As of 31 December 2019, the designed capacity of FDY and POY of the Group was 1,097,800 tons per year, the designed capacity of DTY was 766,900 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.

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 having passed 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.

In view of the continuing epidemic situation, in order to protect the health of each employee, the Group set up a health management centre as soon as possible, after 14 days of quarantine and observation of employees returning from other provinces, they can only start work. At the same time, the Group has added emergency supplies such as alcohol, disinfectant, masks, infrared body measuring instruments, etc., to fully disinfect the plant every day, and to report to personnel entering and leaving of the company, taking the initiative to help combat the epidemic.

FINANCIAL REVIEW

Operational performance

1. Revenue

Revenue of the Group in 2019 amounted to RMB9,396,866,000, representing an increase of 9.2% as compared to RMB8,602,033,000 in 2018. Revenue attributable to the sales of polyester filament yarns, the Group's main products, was RMB7,471,569,000, accounting for 79.5% of the total revenue. Revenue attributable to the sales of polyester thin films was RMB1,925,297,000, accounting for 20.5% of the total revenue. The revenue analysis of the two products is as follow:

Polyester filament yarns

The Group adopts melt-direct spinning differentiated chemical fiber production line which is technologically advanced by global standard, and possesses the leading spinning and texturing equipment and technology in the industry. The Group targets its polyester filament yarns products at 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 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 apparel, footwear and home furnishings and high-end fabrics and textiles for industry. The Group's product solutions have a clear positioning and are targeted at the mid to high-end market. 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 yarns products for the year under review was RMB7,471,569,000, representing an increase of RMB686,845,000 or 10.1% as compared to RMB6,784,724,000 in 2018. The average selling price of polyester filament yarns in the year under review was RMB10,066 per ton, representing a decrease of RMB529 or 5.0% as compared to RMB10,595 per ton in 2018.

The production facility of Billion Vietnam, a subsidiary of the Group, has been in operation in the year under review, which further improved the overall production capacity of the Group, and coupled with the Group's active research and development of the new functional products aspect of its differentiated products with higher added-value, both the sales revenue and sales volume of the Group recorded steady growth.

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 films production lines to conduct research and development on various categories of thin films 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 BOPET thin films from Dornier in Germany, which mainly focuses on the production, research and development and sales of BOPET thin films. It has become one of the largest polyester thin films production enterprises in China.

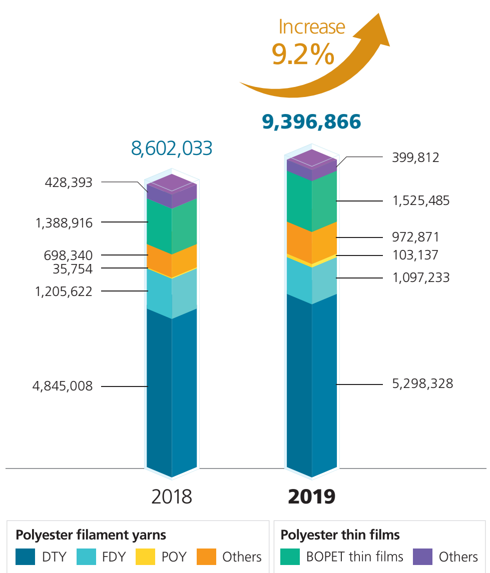
Revenue attributable to the sales of polyester thin films products for the year under review was RMB1,925,297,000, representing an increase of RMB107,988,000 or 5.9% as compared to RMB1,817,309,000 in 2018. The average selling price of polyester thin films in the year under review was RMB9,015 per ton, representing no significant change as compared to RMB9,016 per ton in 2018.

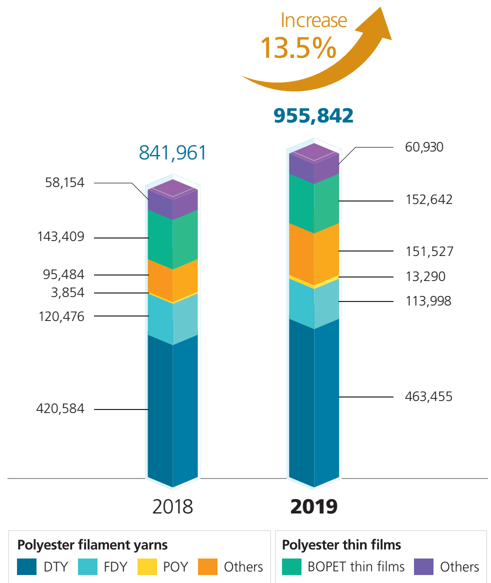
Analysis of Revenue and Sales Volume (By Product)

	Revenue				Sales volume			
	2019		2018		**2019**		2018	
	RMB'000	**Percentage**	RMB'000	Percentage	**Tons**	**Percentage**	Tons	Percentage
Polyester filament yarns								
DTY	**5,298,328**	**56.4%**	4,845,008	56.4%	**463,455**	**48.5%**	420,584	50.0%
FDY	**1,097,233**	**11.7%**	1,205,622	14.0%	**113,998**	**11.9%**	120,476	14.3%
POY	**103,137**	**1.1%**	35,754	0.4%	**13,290**	**1.4%**	3,854	0.5%
Other polyester filament yarns products*	**972,871**	**10.3%**	698,340	8.1%	**151,527**	**15.9%**	95,484	11.3%
Sub-total	**7,471,569**	**79.5%**	6,784,724	78.9%	**742,270**	**77.7%**	640,398	76.1%
Polyester thin films								
BOPET thin films	**1,525,485**	**16.2%**	1,388,916	16.1%	**152,642**	**15.9%**	143,409	17.0%
Other polyester thin films products**	**399,812**	**4.3%**	428,393	5.0%	**60,930**	**6.4%**	58,154	6.9%
Sub-total	**1,925,297**	**20.5%**	1,817,309	21.1%	**213,572**	**22.3%**	201,563	23.9%
Total	**9,396,866**	**100.0%**	8,602,033	100.0%	**955,842**	**100.0%**	841,961	100.0%

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

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





Sales by geographic region

The Group continued to actively expand and consolidate its market share in overseas markets by improving service quality and brand recognition. The Vietnam project of the Group was under full operation during the year under review to further increase our export revenue. The Group's export sales revenue increased from RMB1,141,923,000 in 2018 to RMB1,194,060,000 during the year under review which was up by RMB52,137,000, representing an increase of 4.6%.

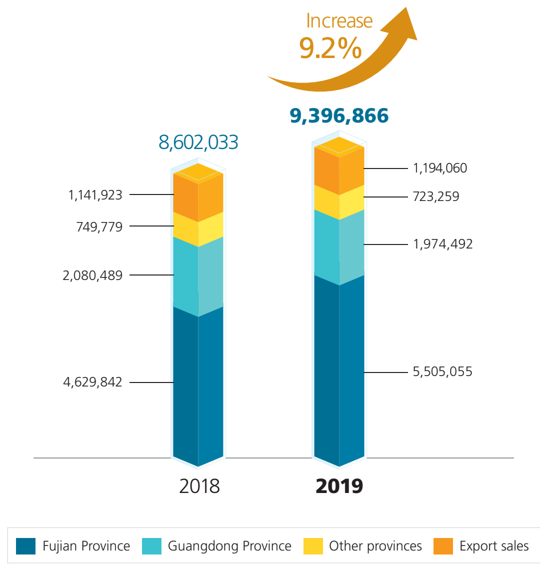
Due to the Sino-US trade frictions, the USD exchange rate fluctuations became more frequent. In addition, the domestic market conditions remained upbeat. Accordingly, the Group stepped up its sales efforts in mainland China during the year under review. Approximately 87.3% of the Group's revenue was generated from domestic market sales, of which 58.6% was from sales to customers in Fujian Province and 21.0% to Guangdong Province adjacent to the Group. The textile manufacturing industries in these two provinces are booming, resulting in a strong demand for the Group's products.

Geographic Breakdown of Revenue

	2019		2018	
	RMB'000	**Percentage**	RMB'000	Percentage
Domestic sales				
Fujian Province	**5,505,055**	**58.6%**	4,629,842	53.8%
Guangdong Province	**1,974,492**	**21.0%**	2,080,489	24.2%
Other Provinces	**723,259**	**7.7%**	749,779	8.7%
Export sales*	**1,194,060**	**12.7%**	1,141,923	13.3%
Total	**9,396,866**	**100.0%**	8,602,033	100.0%

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

Management Discussion and Analysis



2. *Cost of Sales*

Cost of sales of the Group in 2019 was RMB7,779,920,000, representing an increase of 7.5% as compared to the cost of sales of RMB7,238,112,000 in 2018. Such an increase was mainly attributable to the combined effect of the increase in sales volume and the decrease in raw materials prices. The cost of sales for polyester filament yarns was RMB6,268,679,000, accounting for 80.6% of the total cost of sales. The cost of sales for polyester thin films was RMB1,511,241,000, accounting for 19.4% 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

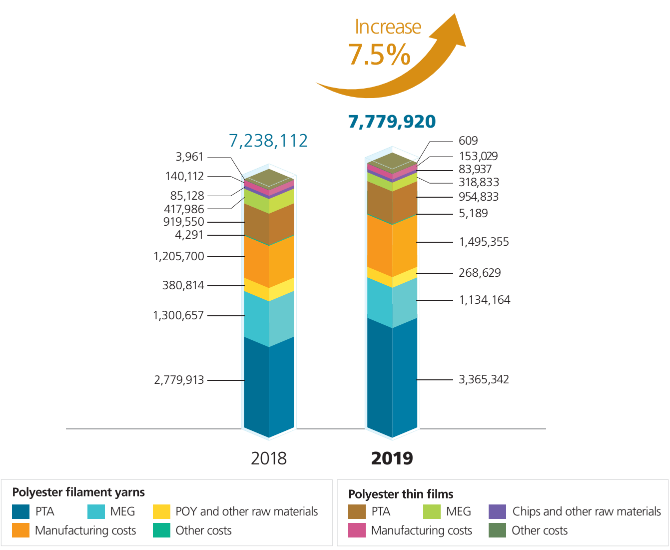
Average cost of sales for polyester filament yarns decreased from RMB8,856 per ton in 2018 to RMB8,445 per ton during the year under review, representing a decrease of RMB411 or 4.6% per ton, which was mainly due to comprehensive impact of the decrease in the selling price of purified terephthalic acid ("PTA") and mono ethylene glycol ("MEG"), the raw materials of polyester filament yarns. The average price of raw materials for polyester filament yarns decreased from RMB6,967 per ton in 2018 to RMB6,424 per ton during the year under review, representing a decrease of RMB543 or 7.8% per ton. PTA and MEG, major raw materials for products of the Group, accounted for 71.8% of the total cost of sales and the prices of which were mainly affected by the price of their raw materials, i.e. crude oil.

Polyester thin films

Average cost of sales for polyester thin films decreased from RMB7,773 per ton in 2018 to RMB7,077 per ton during the year under review, representing a decrease of RMB696 or 9.0% per ton, which was mainly due to the decrease in the selling price of raw materials of polyester thin films. In addition, the average price of raw materials for polyester thin films decreased from RMB7,058 per ton in 2018 to RMB6,357 per ton during the year under review, representing a decrease of RMB701 or 9.9% per ton.

Analysis of Cost of Sales

	2019 RMB'000	2019 Percentage	2018 RMB'000	2018 Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	**3,365,342**	**43.3%**	2,779,913	38.4%
MEG	**1,134,164**	**14.6%**	1,300,657	18.0%
POY and other raw materials	**268,629**	**3.4%**	380,814	5.3%
Sub-total	**4,768,135**	**61.3%**	4,461,384	61.7%
Manufacturing costs	**1,495,355**	**19.2%**	1,205,700	16.7%
Other costs	**5,189**	**0.1%**	4,291	0.0%
Sub-total	**6,268,679**	**80.6%**	5,671,375	78.4%
Polyester thin films				
Cost of raw materials				
PTA	**954,833**	**12.2%**	919,550	12.7%
MEG	**318,833**	**4.1%**	417,986	5.8%
Chips and other raw materials	**83,937**	**1.1%**	85,128	1.2%
Sub-total	**1,357,603**	**17.4%**	1,422,664	19.7%
Manufacturing costs	**153,029**	**2.0%**	140,112	1.9%
Other costs	**609**	**0.0%**	3,961	0.0%
Sub-total	**1,511,241**	**19.4%**	1,566,737	21.6%
Total	**7,779,920**	**100.0%**	7,238,112	100.0%



Analysis of Average Cost of Sales of Products Per Ton

	2019 RMB (per ton)	2019 Percentage	2018 RMB (per ton)	2018 Percentage
Polyester filament yarns				
Cost of raw materials				
PTA	**4,534**	**53.7%**	4,341	49.0%
MEG	**1,528**	**18.1%**	2,031	22.9%
POY and other raw materials	**362**	**4.3%**	595	6.7%
Sub-total	**6,424**	**76.1%**	6,967	78.6%
Manufacturing costs	**2,014**	**23.8%**	1,882	21.3%
Other costs	**7**	**0.1%**	7	0.1%
Sub-total	**8,445**	**100.0%**	8,856	100.0%
Polyester thin films				
Cost of raw materials				
PTA	**4,471**	**63.2%**	4,562	58.7%
MEG	**1,493**	**21.1%**	2,074	26.7%
Chips and other raw materials	**393**	**5.6%**	422	5.4%
Sub-total	**6,357**	**89.9%**	7,058	90.8%
Manufacturing costs	**717**	**10.1%**	695	8.9%
Other costs	**3**	**0.0%**	20	0.3%
Sub-total	**7,077**	**100.0%**	7,773	100.0%
Total	**8,139**		8,598	

3. Gross Profit

Gross profit of the Group in 2019 was RMB1,616,946,000, which increased by RMB253,025,000, representing an increase of 18.6% as compared to RMB1,363,921,000 in 2018. Average selling price of products decreased by RMB386 per ton, representing a decrease of 3.8% from RMB10,217 per ton in 2018 to RMB9,831 per ton during the year under review, while average cost of products also decreased by RMB459 per ton, representing a decrease of 5.3% from RMB8,598 per ton in 2018 to RMB8,139 per ton during the year under review. Therefore, the average gross profit of products per ton increased from RMB1,619 in 2018 to RMB1,692 during the year under review. As the decrease in the average cost of products per ton was much higher than the decrease in average selling price of products per ton, gross profit margin increased by 1.3 percentage points from 15.9% in 2018 to 17.2% during the year under review.

Polyester filament yarns

Average selling price of polyester filament yarns decreased by RMB529 per ton, representing a decrease of 5.0% from RMB10,595 in 2018 to RMB10,066 during the year under review. The average gross profit of polyester filament yarns per ton decreased from RMB1,739 in 2018 to RMB1,621 during the year under review. The gross profit margin decreased slightly by 0.3 percentage point from 16.4% in 2018 to 16.1% during the year under review.

Polyester thin films

Average selling price of polyester thin films was RMB9,015 per ton, representing no significant change as compared to RMB9,016 per ton in 2018. The average gross profit of polyester thin films products per ton increased from RMB1,243 in 2018 to RMB1,939 during the year under review. The gross profit margin increased by 7.7 percentage points from 13.8% in 2018 to 21.5% during the year under review.

During the year under review, the increase in gross profit and gross profit margin of the Group as a whole was primarily attributable to the Group's continuous development of functional new products, the continuous growth as well as the continuous recovery of the polyester filament yarns and polyester thin films industry.

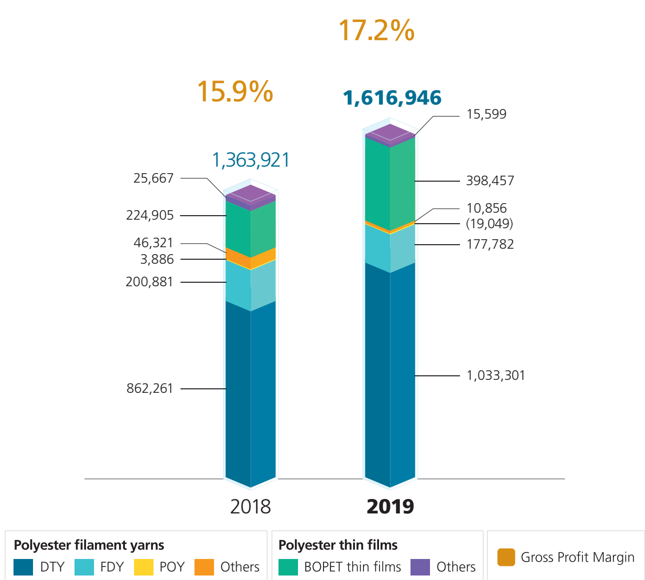
Management Discussion and Analysis

Analysis of gross profit by product

	2019		2018	
	RMB'000	**Percentage**	RMB'000	Percentage
Polyester filament yarns				
DTY	**1,033,301**	**63.9%**	862,261	63.2%
FDY	**177,782**	**11.0%**	200,881	14.7%
POY	**(19,049)**	**−1.2%**	3,886	0.3%
Other polyester filament yarns products*	**10,856**	**0.7%**	46,321	3.4%
Sub-total	**1,202,890**	**74.4%**	1,113,349	81.6%
Polyester thin films				
BOPET thin films	**398,457**	**24.6%**	224,905	16.5%
Other polyester thin films products**	**15,599**	**1.0%**	25,667	1.9%
Sub-total	**414,056**	**25.6%**	250,572	18.4%
Total	**1,616,946**	**100.0%**	1,363,921	100.0%

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

** Other polyester thin films 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)

	2019 **RMB**	2018 RMB
Polyester filament yarns		
Average selling price	**10,066**	10,595
Average cost of sales	**8,445**	8,856
Average gross profit	**1,621**	1,739
Average gross profit margin	**16.1%**	16.4%
Polyester thin films		
Average selling price	**9,015**	9,016
Average cost of sales	**7,076**	7,773
Average gross profit	**1,939**	1,243
Average gross profit margin	**21.5%**	13.8%

4. *Other revenue*

Other revenue of the Group in 2019 amounted to RMB157,980,000, representing an increase of 34.6% as compared to RMB117,342,000 in 2018. Other revenue mainly included bank interest income, government grants and gains on sales of raw materials. Such change was mainly attributable to the combined effect of an increase in gains from government grants and an increase in bank interest income as compared to those of the same period last year and a decrease in gains on sales of raw materials as compared to those of the same period last year.

5. *Other net gain*

Other net gain of the Group in 2019 amounted to RMB37,759,000, representing a decrease of 63.5% as compared to RMB103,527,000 in 2018. Other net gain mainly comprised the realised and unrealised gains on other financial assets and the net exchange loss. Such change was mainly attributable to the decrease in realised and unrealised gains on other financial assets and the increase in net exchange loss.

6. *Selling and distribution expenses*

Selling and distribution expenses of the Group in 2019 amounted to RMB89,608,000, representing an increase of 8.3% as compared to RMB82,772,000 in the 2018. Selling and distribution expenses mainly comprised transportation costs, wages of our sales staffs, operating expenses and promotion expenses. Such increase was mainly due to the increase in transportation costs resulted from the increase in sales volume.

7. *Administrative expenses*

Administrative expenses of the Group in 2019 amounted to RMB442,672,000, increased by 11.8% as compared to RMB395,867,000 in 2018. Administrative expenses mainly comprised research and development costs, depreciation on office equipment, staff wages, general office expenses, professional and legal fees, etc. Such increase was mainly due to the increase in the costs of research and development. The Company has always attached importance to product research and development and technological innovation, so the research and development cost increased from RMB274,935,000 in 2018 to RMB297,481,000 in 2019, representing an increase of 8.2%.

8. *Finance costs*

Finance costs of the Group in 2019 amounted to RMB214,804,000, increased by 24.8% as compared to RMB172,081,000 in 2018. The change was mainly due to the increase in the discounting of notes as a result of the increase in discounting expenses during the year.

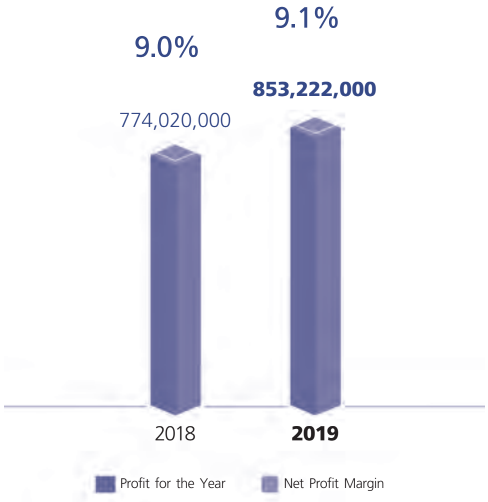
9. *Income tax*

Income tax of the Group in 2019 amounted to RMB212,379,000, increased by 32.7% as compared to RMB160,050,000 in 2018. Such change was mainly due to an increase in profit before income tax of the Group and payment of withholding income tax arising from dividends distribution to Billion Development (Hong Kong) Limited by Billion Fujian.

Billion Fujian and Billion High-tech, major subsidiaries of the Group, were recognized as the Advanced and New Technology Enterprises and entitled to a preferential tax rate of 15% in 2019.

10. Profit for the year

Profit of the Group in 2019 amounted to RMB853,222,000, increased by RMB79,202,000 or 10.2% as compared to RMB774,020,000 in 2018, while the net profit margin of 9.1% represented an increase of 0.1 percentage point as compared to 9.0% in 2018, which was mainly attributable to the Group's continuous development of functional new products, the continuous growth as well as the continuous recovery of the polyester filament yarns and polyester thin films industry.



Financial position

1. Liquidity and capital resources

As at 31 December 2019, cash and cash equivalent of the Group amounted to RMB201,398,000, decreased by RMB254,225,000 or 55.8% as compared to RMB455,623,000 as at 31 December 2018. Such decrease was mainly due to the combined effect of the increase in cash inflow from operating activities, the decrease in bank wealth management products held and expansion of plants and procurement of production facility during the year under review.

During the year under review, net cash inflow from operating activities amounted to RMB4,268,375,000, net cash outflow used in investing activities amounted to RMB2,356,650,000 and net cash outflow from financing activities amounted to RMB2,164,104,000.

The Group satisfies its working capital needs mainly with cash inflows from operating activities. During the period under review, inventory turnover days were 88.4 days (2018: 59.6 days), an increase of 28.8 days as compared to the same period last year, which was mainly due to the further in sales due to the continuous recovery of the industry and upon the expansion of the Group. Accordingly, the Group increased inventory to prepare for the sales activities in the upcoming year. The trade receivable turnover days were 10.4 days (2018: 10.3 days), representing no significant change as compared to the same period last year. The trade payable turnover days were 410.9 days (2018: 78.8 days), representing an increase of 332.1 days as compared to the same period last year mainly due to the growth scale of the Group and the Group's increasing discretion authority over goods payments, which increased the discounting of notes.

As at 31 December 2019, the Group had capital commitments of RMB1,802,082,000, which were mainly used for the expansion of production capacity as well as development of the production line for polyester industrial yarn products in Jinjiang.

2. Capital Structure

As at 31 December 2019, the total liabilities of the Group amounted to RMB9,831,942,000, whereas capital and reserves amounted to RMB6,660,460,000. The gearing ratio (total liabilities divided by total equity) was 147.6%. Total assets amounted to RMB16,492,402,000. The debt-to-assets ratio (total assets divided by total liabilities) was 1.7 times. Bank loans of the Group amounted to RMB1,613,982,000, of which RMB1,142,549,000 were repayable within one year, and RMB471,433,000 were repayable after one year. 3.2% of the bank borrowings 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 2019, as disclosed in note 16 under the section headed "Notes to the Financial Statements" of this annual report, the Group held bank wealth management products (collectively, the "Investments") and principal-guaranteed structural bank deposits totaling approximately RMB310,245,000. Information of the Investments as at 31 December 2019 are 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 2019 (RMB'000)	Fair value as at 31 December 2019 (RMB'000)	Percentage to the Group's net assets as at 31 December 2019
Bank of Quanzhou	Haixi•Yuanquan – Xingyun Liushui Series Institutional Wealth Management Product	100,000	3,972	103,972	1.6%
Industrial Bank	Structural Bank Deposits	200,000	6,273	206,273	3.1%

Haixi•Yuanquan-Xingyun Liushui Series Institutional Wealth Management Product ("Bank of Quanzhou Wealth Management Product") and principal-guaranteed structural bank deposits in the Industrial Bank represented 0.6% and 1.3% respectively of the total assets of the Group as at 31 December 2019.

Bank of Quanzhou Wealth Management Product do not guarantee the principal or any return on the Investments. In the event that the value of the underlying asset in the respective relevant investment portfolio of Bank of Quanzhou 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 amount of principal 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 optimising 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 is primarily related to the expansion of domestic production capacity as well as development of the Vietnam production business. The Company intends to finance such plan through internally generated funds and bank loans.

Management Discussion and Analysis

Charges on assets

Save as disclosed in this report, there was no other charge on Group's assets as of 31 December 2019.

Contingent liabilities

As at 31 December 2019, the Group did not have any contingent liabilities (2018: 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 2019, the Group's foreign currency risk exposure was mainly derived from the net liabilities exposure denominated in United States Dollars of RMB89,975,000 and net liabilities exposure denominated in Euro of RMB8,152,000.

Employees and remuneration

As at 31 December 2019, the Group had a total of 7,208 employees. The remuneration for employees is determined in accordance with their performance, professional experience and the 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 awards in accordance with individual performance.

Business Outlook

Although the recovery of global trade and investment is slower than expected, the easing of the US-Sino trade war and the loosening of monetary policy by major central banks around the world and the introduction of various fiscal stimulus policies in some countries in response to the economic slowdown, global economic growth will be slightly improved in this year, recession risks will be limited, monetary policy will be looser, and the economic outlook will be flat. In recent years, the price and spread performance of polyester filament yarns have been stronger than that in the same period in history. The concentration has continued to increase at the same time as the conversion of old and new capacity.

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. Benefiting from the economic cycle and the rise of the crude oil price, the price trend of polyester products of the Group continued to improve. In addition, the continuous launch of new products has driven up the price of the Group's products and coupled with our appropriate cost control, the Group's overall business has experienced steady growth.

Management Discussion and Analysis

The Billion Vietnam Polyester Filament Project, which has an iconic significance for the Group's expansion into emerging markets, was formally put into operation in September 2019, further expanding the Group's overseas markets. 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 they are expected to gradually commence commercial production in the second quarter of 2020.

Polyester thin films consumption has been increasing in China in recent years, and China has become an important production base for polyester thin films products worldwide. By expanding the existing polyester thin film business, the Company will be able to leverage its existing scale and expertise in manufacturing polyester thin films to enjoy the growth of this market. The Group currently has geographical, technological and cost advantages in the polyester thin film industry. At a time when the industry is still in the blue ocean stage, the future polyester thin film will remain an important performance growth driver of the Group. Therefore, the Group is investing approximately US$230 million to establish a polyester thin film production line in the three years from 2019 to 2021. Upon completion, its estimated total production capacity will be approximately 255,000 tons per year.

After the expansion plans for the polyester industrial yarn project and the polyester thin film project are completed, the size of the Group, and the sales volume and sales revenue of products will further increase. However, due to the impact of the continuing of the epidemic, there was some short-term impacts on the overall textile industry and the sales of the Group. However, as the textile industry is still well-founded, we remain confident in the medium and long-term development of the business.

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 2019.

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 2019.

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 2019. 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 2019, 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.

The individual attendance record of each Director for the meetings of the Board and the general meetings held during the year ended 31 December 2019 is set out below:

Name of Director	Attendance/Number of Meetings Board Meetings	 Shareholders Meetings
Executive Directors		
Mr. Sze Tin Yau *(Co-chairman)*	7/7	1/1
Mr. Wu Jinbiao *(Chief Executive Officer)*	7/7	1/1
Non-executive Director		
Mr. Zhang Shengbai *(Co-chairman)* (appointed on 18 May 2019)	5/5	0/0
Mr. Zeng Wu *(Co-chairman)* (resigned on 18 May 2019)	2/2	1/1
Independent non-executive Directors		
Mr. Chan Shek Chi	7/7	1/1
Mr. Shih Chun Pi	6/7	1/1
Mr. Lin Jian Ming (appointed on 18 May 2019)	5/5	0/0
Mr. Ma Yuliang (resigned on 18 May 2019)	2/2	1/1

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 2019, the Co-chairmen of the Board were Mr. Sze Tin Yau, Mr. Zeng Wu and Mr. Zhang Shengbai. For the year ended 31 December 2019, 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 2019 is set out below. The Directors as at 31 December 2019 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
Non-executive Director	
Mr. Zhang Shengbai *(Co-chairman)* (appointed on 18 May 2019)	Yes
Mr. Zeng Wu *(Co-chairman)* (resigned on 18 May 2019)	–
Independent non-executive Directors	
Mr. Chan Shek Chi	Yes
Mr. Shih Chun Pi	Yes
Mr. Lin Jian Ming (appointed on 18 May 2019)	Yes
Mr. Ma Yuliang (resigned on 18 May 2019)	–

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.

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 2019, members of the Remuneration Committee comprised Mr. Chan Shek Chi (chairman), Mr. Sze Tin Yau and Mr. Ma Yuliang (resigned on 18 May 2019) and Mr. Li Jian Ming (appointed on 18 May 2019). 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 2019, the Remuneration Committee mainly performed the following duties:

- recommended the remuneration of Mr. Zhang Shengbai and Mr. Li Jian Ming 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 2019.

During the year ended 31 December 2019, 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. Lin Jian Ming (appointed on 18 May 2019)	1/1
Mr. Ma Yuliang (resigned on 18 May 2019)	0/0

Nomination Committee

During the year ended 31 December 2019, members of the Nomination Committee comprised Mr. Sze Tin Yau (Chairman), Mr. Chan Shek Chi and Mr. Shih Chun Pi. 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 2019, the Nomination Committee mainly performed the following duties:

- reviewed the qualifications of Mr. Zhang Shengbai and Mr. Lin Jian Ming, and recommended their respective appointments 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 2019.

During the year ended 31 December 2019, 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. Shih Chun Pi	1/1

Audit Committee

During the year ended 31 December 2019, members of the audit committee of the Board (the "Audit Committee") comprised Mr. Chan Shek Chi (Chairman), Mr. Ma Yuliang (resigned on 18 May 2019), Mr. Lin Jian Ming (appointed on 18 May 2019) and Mr. Shih Chun Pi, 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 2019, the Audit Committee mainly performed following duties:

- reviewed the Group's audited annual results for the year ended 31 December 2018 and the unaudited interim results for the six months ended 30 June 2019, 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 2019, 5 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)*	5/5
Mr. Shih Chun Pi	5/5
Mr. Lin Jian Ming (appointed on 18 May 2019)	3/3
Mr. Ma Yuliang (resigned on 18 May 2019)	2/2

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 2019, members of the Corporate Governance Committee comprised two executive Directors, namely Mr. Sze Tin Yau (Chairman) and Mr. Wu Jinbiao. 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 2019, 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 2019, 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

Corporate Governance Report

Accountability and Audit

The Directors acknowledge their responsibility for the preparation of the financial statements for the year ended 31 December 2019, 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 2019, 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 2019, the Group was required to pay an aggregate amount of approximately RMB1,400,000 (2018: 1,650,000) 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:

	2019 **RMB'000**	2018 RMB'000
Review of interim results	**600**	650

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 2019 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 2019.

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 6 May 2020 (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 2019, 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 50, 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 29 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 2019, Mr. Sze was the sole shareholder and director of Kingom Power Limited ("Kingom Power"), which was interested in 30.33% of the issued share capital of the Company as at 31 December 2019 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 57, 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 34 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.

Directors and Senior Management

As at 31 December 2019, Mr. Wu was the sole shareholder and director of Winwett Investments Limited ("Winwett"), which was interested in 6.45% of the issued share capital of the Company as at 31 December 2019 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. Zhang Shengbai, aged 44, has over 21 years of experience in the energy industry. He has been mainly engaged in the sales, investment, strategic planning and management of companies. He received a master degree in business administration from Southwest Jiaotong University* (西安交通大學) in 2002.

Mr. Zhang joined Chongqing China Energy Conservation Co., Ltd.* (重慶中節能事業有限公司) in March 2007 and was promoted as the chairman and general manager in January 2019. He has been the general manager of Hefei Shikai Bus Natural Gas Co., Ltd.* (合肥施凱公交天然氣有限公司) from September 2005 and since February 2015, he has become the chairman as well. He was also the head of the strategy department of New Hope Group Co., Ltd.* (新希望集團有限公司) from October 2003 to September 2005, the deputy head of the strategy department of D'Long International Strategic Investment Company* (德隆國際戰略投資公司) from January 2003 to October 2003, the deputy manager of the investment and development department of New Hope Agriculture Co., Ltd.* (新希望農業股份公司) from January 2001 to January 2003, the sales manager of Chengdu Tieshan Kegongmao Development Co., Ltd.* (成都鐵山科工貿實業開發公司) from July 2000 to January 2001,and an assistant engineer of The First Corporation of the Fourth Engineering Division of the Ministry of Railways* (鐵道部第四工程局一公司) from August 1997 to July 2000.

Independent Non-executive Directors

Mr. Chan Shek Chi, aged 42, 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. Lin Jian Ming, aged 57, served as an independent non-executive Director from 31 March 2013 to 27 December 2018 and a member of both the audit committee and the nomination committee of the Board from 19 March 2014 to 27 December 2018.

Mr. Lin has many years of experience in education and research. He was a graduate of Huaqiao University* (華僑大學). He was also a visiting scholar of the Chinese University of Hong Kong in 1995. He also received a doctorate degree from the Tianjin University* (天津大學) in 2002.

Mr. Lin is a professor and doctorial tutor of the Department of Materials Science and Engineering of Huaqiao University, and a director and researcher of the Institute of Materials Physical Chemistry of Huaqiao University. He is also a director of the Optical Society of Fujian* (福建省光學學會), a director of the Fujian Chemical Society* (福建省化學學會), and a deputy executive director of the Chemistry and Chemical Engineering Society of Quanzhou* (泉州市化學化工學會). He received the Youth Science and Technology Award* (青年科技獎) in Quanzhou in 2006.

Mr. Shih Chun Pi, aged 63, 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 65, is a vice president of the Company and a director of Billion Fujian and Billion High-tech. Mr. Wu has more than 31 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絲綸有限公司) from May 1998 to August 2003. Mr. Wu joined the Company in November 2010.

Mr. He Wenyao, aged 53, is a vice president of the Company and a director of Billion Fujian and Billion High-tech. Mr. He has approximately 29 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 the Group. Prior to joining the 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 61, is a vice president of the Company and a senior engineer. He has over 35 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 42, 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 43, 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 19 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, a member of CPA Australia and an associate member of The Hong Kong Institute of Chartered Secretaries.

Mr. Xu Xiaofeng, aged 44, joined the Group in August 2004 and is the finance manager. Mr. Xu is primarily responsible for the daily finance-related work of the 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 2019.

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 2019.

Business review

The business review of the Group as at 31 December 2019 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 2019 are set out in note 13 to the consolidated financial statements of the Company.

Financial statements

A summary of the results, assets and liabilities of the Group for the year ended 31 December 2019, 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 78 to 157.

Transfer to reserves

Profits attributable to shareholders, before dividends, of RMB853,222,000 (2018: profit of RMB774,020,000) has been transferred to reserves.

No interim dividend (2018: HK4.7 cents per share) was paid for the six months ended 30 June 2019.

Reserves

Details of movements in reserves of the Group and the Company for the year ended 31 December 2019 are set out in the consolidated statement of changes in equity and note 25 to the consolidated financial statements of the Company, respectively.

Distributable reserves

As at 31 December 2019, 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$180,220,000. 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 2019, the Group held property, plant, equipment and other fixed assets of approximately RMB8,975,594,000. 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 2019, the aggregate sales attributable to the Group's five largest customers accounted for approximately 16.1% of the Group's total sales and the sales attributable to the Group's largest customer accounted for approximately 4.4% of the Group's total sales. During the year ended 31 December 2019, the aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 67.1% of the Group's total purchases and the purchases attributable to the Group's largest supplier accounted for approximately 32.0% 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 2019 amounted to approximately RMB153,000 (2018: approximately RMB81,000).

Share capital

Details of the movement in share capital of the Company during the year are set out in note 25 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 2019, 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
March 2019	484,000	12.44	10.68	4,790,000
April 2019	626,000	13.60	11.50	6,733,000
May 2019	830,000	14.36	13.00	9,876,000
July 2019	186,000	4.73	4.48	751,000
August 2019	452,000	5.85	5.35	2,274,000
September 2019	36,000	5.98	5.90	194,000
November 2019	306,000	4.95	3.50	1,130,000
December 2019	290,000	6.15	5.05	1,495,000
Total	3,210,000			27,243,000

Report of the Directors

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 3,210,000 shares were bought back in 2019 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 RMB27,000 was transferred from share premium to the capital redemption reserve. The premium paid on the repurchase of the shares of approximately HK$31,290,000 (equivalent to RMB27,216,000) 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 2019 are set out in the consolidated financial statements of the Company.

The board does not recommend the payment of any final dividend for the year ended 31 December 2019.

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 158 of this annual report. Such summary does not form part of the audited financial statements.

Directors

The Directors during the year ended 31 December 2019 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)*

Non-executive Directors

Mr. Zhang Shengbai *(Co-chairman)* (appointed on 18 May 2019)
Mr. Zeng Wu *(Co-chairman)* (resigned on 18 May 2019)

Independent non-executive Directors

Mr. Chan Shek Chi
Mr. Shih Chun Pi
Mr. Lin Jian Ming (appointed on 18 May 2019)
Mr. Ma Yuliang (resigned on 18 May 2019)

Report of the Directors

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. Zhang Shengbai, has signed a letter of appointment with the Company for a term of three years commencing on 18 May 2019.

The independent non-executive Directors, Mr. Chan Shek Chi and Mr. Shih Chun Pi, have signed a letter of appointment with the Company for a term of three years respectively. The letter of appointment of Mr. Chan Shek Chi commenced on 26 May 2015 and renewed on 26 May 2018 and 26 May 2019 respectively. Upon the expiry of his letter of appointment in 2019, his letter of appointment will be further reviewed for a further term of one year. The letter of appointment of Mr. Shih Chun Pi commenced on 28 December 2018. The independent non-executive Director, Mr. Lin Jian Ming, has signed a letter of appointment with the Company for a term of one year. The letter of appointment of Mr. Lin Jian Ming commenced on 18 May 2019. The letters of appointment may be terminated by one month's notice in writing 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.

In accordance with article 84 of the Articles of Association, Mr. Wu Jinbiao 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. Zhang Shengbai was appointed by the Board as a non-executive Director on 18 May 2019. Pursuant to article 83(3) of the Articles of Association, Mr. Zhang shall retire and be eligible for re-election at the forthcoming AGM. Mr. Zhang has offered himself for re-election at the forthcoming AGM. Mr. Lin Jian Ming was appointed by the Board as an independent non-executive Director on 18 May 2019. Pursuant to article 83(3) of the Articles of Association, Mr. Lin shall retire and be eligible for re-election at the forthcoming AGM. Mr. Lin 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 2019 is set out below:

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

Details of the Directors' remuneration and individuals with highest emoluments are set out in notes 8 and 9 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 2019 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 2019 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 2019, 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	30.33%
Mr. Wu Jinbiao (2)	Interest in controlled corporation	136,820,000	6.45%

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 2,122,098,000 issued shares of the Company as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executive 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 2019, 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	787,982,808	37.13%
CECEP Chongqing Industry Co., Ltd. ("CECEP Chongqing") [1]	Interest in controlled corporation	787,982,808	37.13%
China Energy Conservation and Environmental Protection Group ("CECEP") [2]	Interest in controlled corporation	787,982,808	37.13%
Kingom Power Limited ("Kingom Power")	Beneficial owner	643,720,000	30.33%
Winwett Investments Limited	Beneficial owner	136,820,000	6.45%
Mr. Huang Shaorong	Beneficial owner	19,425,000	0.92%
	Interest in controlled corporation	188,532,000	8.88%
Ever Luxuriant Global Trading Limited	Beneficial owner	188,532,000	8.88%
Mr. Lin Haibin	Beneficial owner	26,545,000	1.25%
	Interest in controlled corporation	174,908,000	8.24%
Haibin International Investments Limited	Beneficial owner	174,908,000	8.24%
Export – Import Bank of China	Person having a security interest in shares	300,000,000	14.14%

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 2,122,098,000 issued shares of the Company as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, 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.

Report of the Directors

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 2019, the remaining life of the Share Option Scheme was about 1 year and 4 months.

No options have been granted under the Share Option Scheme since its adoption up to 31 December 2019.

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 2019, the Group's total contributions to the retirement schemes charged in the consolidated income statement amounted to RMB9,082,000 (2018: RMB7,361,000).

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 2019, 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, FDY and POY 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 2019, 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 2019, sales to Baikai Elastic Weaving by Billion Fujian amounted to approximately RMB347,218,000, 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 2019, 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 2019, sales to Baikai Wrap Knitting by Billion Fujian amounted to approximately RMB367,039,000, 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 2019, 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 2019, sales to Baikai Textile by Billion Fujian amounted to approximately RMB293,144,000, 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 2019, 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 2019, sales to Baikai Zipper by Billion Fujian amounted to approximately RMB6,647,000, 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 2019, 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 2019, sales to Billion Fujian and Billion High-tech by Baikai Paper amounted to approximately RMB316,233,000 and RMB12,046,000 respectively, which are within the approved cap of RMB523,000,000 and RMB34,000,000 respectively as disclosed in the Company's announcement dated 11 December 2017 and circular dated 31 January 2018.

(f) Purchase of paper boxes, rolls and polyfoam boards by Billion Vietnam from Baikai Industry (Viet Nam) Co., Ltd. (百凱實業（越南）有限公司) ("Baikai Vietnam")

During the year ended 31 December 2019, pursuant to a purchase agreement entered into between Baikai Vietnam and Billion Vietnam on 15 August 2019, Baikai Vietnam provided paper boxes, rolls and polyfoam boards to Billion Vietnam at a price 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 Vietnam pays to other independent suppliers.

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

For the year ended 31 December 2019, sales to Billion Vietnam by Baikai Vietnam amounted to approximately RMB5,619,000, which is within the approved cap of RMB46,840,000 as disclosed in the Company's announcement dated 15 August 2019.

(g) Sales of DTY, FDY and POY by Billion Vietnam to Baikai Vietnam

During the year ended 31 December 2019, pursuant to a sales agreement entered into between Baikai Vietnam and Billion Vietnam on 15 August 2019, Billion Vietnam provided DTY and FDY to Baikai Vietnam at a price 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 Vietnam sells to other independent customers.

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

For the year ended 31 December 2019, sales to Baikai Vietnam by Billion Vietnam amounted to approximately RMB295,000, which is within the approved cap of RMB2,330,000 as disclosed in the Company's announcement dated 15 August 2019.

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

During the year ended 31 December 2019, pursuant to an electricity supply agreement entered into between Billion Fujian and Baikai Wrap Knitting on 7 March 2019, 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 2019, sales of electricity to Baikai Wrap Knitting by Billion Fujian amounted to approximately RMB44,426,000, which is within the approved cap of RMB60,000,000 as disclosed in the Company's announcement dated 7 March 2019.

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.

Report of the Directors

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 2019.

(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 28 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 2019.

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 2019.

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, save as at 16 August 2019, the public float of the Company was approximately 15.13% but has been restored in the afternoon on 19 August 2019 to approximately 25.86% as at the close of business on 19 August 2019, 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 2019 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 2019 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 2019. The financial statements had been agreed by the external auditors of the Company.

Auditors

The consolidated financial statements for the year ended 31 December 2019 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 does not recommend the payment of any final dividend for the year ended 31 December 2019.

Closure of register of members

The register of members of the Company will be closed from Wednesday, 29 April 2020 to Wednesday, 6 May 2020 (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 Tuesday, 28 April 2020.

On behalf of the Board

Sze Tin Yau
Co-chairman

Hong Kong, 20 March 2020

* *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 78 to 157, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") 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 104.

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 26 (e) to the consolidated financial statements and the accounting policies 1(e) and 1(k)(i) on page 92 and page 97.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2019 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.

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 scepticism 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.

- 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
20 March 2020

Consolidated Income Statement

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	**2019** **RMB'000**	2018 (Note) RMB'000
Revenue	3	**9,396,866**	8,602,033
Cost of sales		**(7,779,920)**	(7,238,112)
Gross profit		**1,616,946**	1,363,921
Other revenue	4	**157,980**	117,342
Other net gain	5	**37,759**	103,527
Selling and distribution expenses		**(89,608)**	(82,772)
Administrative expenses		**(442,672)**	(395,867)
Profit from operations		**1,280,405**	1,106,151
Finance costs	6(a)	**(214,804)**	(172,081)
Profit before taxation	6	**1,065,601**	934,070
Income tax	7	**(212,379)**	(160,050)
Profit for the year attributable to equity shareholders of the Company		**853,222**	774,020
Earnings per share			
Basic and diluted (RMB)	10	**0.40**	0.36

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 84 to 157 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 25(b).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019
(Expressed in Renminbi)

	2019 RMB'000	2018 (Note) RMB'000
Profit for the year attributable to equity shareholders of the Company	**853,222**	774,020
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	**(135)**	(74,382)
	(135)	(74,382)
Total comprehensive income for the year attributable to equity shareholders of the Company	**853,087**	699,638

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 84 to 157 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Property, plant and equipment	11	**8,975,594**	6,604,069
Intangible assets	12	**10,586**	12,152
Deposits and prepayments	15	**715,052**	862,345
		9,701,232	7,478,566
Current assets			
Inventories	14	**2,204,027**	1,565,282
Trade and other receivables	15	**1,496,597**	1,193,494
Other financial assets	16	**310,245**	1,514,738
Restricted bank deposits	17	**2,578,903**	251,830
Cash and cash equivalents	18(a)	**201,398**	455,623
		6,791,170	4,980,967
Current liabilities			
Trade and other payables	19	**7,733,903**	2,644,620
Contract liabilities	20	**163,383**	211,784
Bank loans	21	**1,142,549**	3,295,416
Lease liabilities	22	**1,515**	–
Current portion of deferred income	23	**944**	598
Current taxation	24(a)	**142,799**	92,137
		9,185,093	6,244,555
Net current liabilities		**(2,393,923)**	(1,263,588)
Total assets less current liabilities		**7,307,309**	6,214,978

Consolidated Statement of Financial Position (Continued)

At 31 December 2019
(Expressed in Renminbi)

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current liabilities			
Bank loans	21	**471,433**	111,683
Lease liabilities	22	**5,561**	–
Deferred income	23	**–**	598
Deferred tax liabilities	24(b)	**169,855**	164,193
		646,849	276,474
NET ASSETS		**6,660,460**	5,938,504
CAPITAL AND RESERVES	25		
Share capital		**17,846**	17,873
Reserves		**6,642,614**	5,920,631
TOTAL EQUITY		**6,660,460**	5,938,504

Approved and authorised for issue by the Board of Directors on 20 March 2020.

Sze Tin Yau
Director

Wu Jinbiao
Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 84 to 157 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	Share capital	Share premium	Capital redemption reserve	Statutory reserve	Capital reserve	Exchange reserve	Retained profits	Total
		Note 25(c)(i)	Note 25(d)(i)	Note 25(d)(ii)	Note 25(d)(iii)	Note 25(d)(iv)	Note 25(d)(v)	(Note)	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	25(b)	–	(145,044)	–	–	–	–	–	(145,044)
Purchase of own shares	25(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	25(b)	–	–	–	–	–	–	(87,898)	(87,898)
Appropriation to statutory reserve		–	–	–	80,606	–	–	(80,606)	–
Balance at 31 December 2018 and 1 January 2019		**17,873**	**110,049**	**1,460**	**492,705**	**1,805,631**	**(175,140)**	**3,685,926**	**5,938,504**
Changes in equity for 2019:									
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**853,222**	**853,222**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(135)**	**–**	**(135)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(135)**	**853,222**	**853,087**
Dividends approved in respect of the previous year	25(b)	**–**	**–**	**–**	**–**	**–**	**–**	**(103,888)**	**(103,888)**
Purchase of own shares	25(c)(ii)								
– par value paid		**(27)**	**–**	**–**	**–**	**–**	**–**	**–**	**(27)**
– premium paid		**–**	**(27,216)**	**–**	**–**	**–**	**–**	**–**	**(27,216)**
– transfer between reserves		**–**	**(27)**	**27**	**–**	**–**	**–**	**–**	**–**
Appropriation to statutory reserve		**–**	**–**	**–**	**92,223**	**–**	**–**	**(92,223)**	**–**
Balance at 31 December 2019		**17,846**	**82,806**	**1,487**	**584,928**	**1,805,631**	**(175,275)**	**4,343,037**	**6,660,460**

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 84 to 157 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	**2019** **RMB'000**	2018 (Note) RMB'000
Operating activities			
Cash generated from operations	18(b)	**4,424,430**	1,043,651
Income tax paid		**(156,055)**	(144,614)
Net cash generated from operating activities		**4,268,375**	899,037
Investing activities			
Payment for the purchase of property, plant and equipment and intangible assets		**(142)**	(15,592)
Expenditure on construction in progress		**(1,307,214)**	(1,428,132)
Payment for interests in leasehold land held for own use under operating lease		**–**	(87,170)
Payment of wealth management products		**(100,000)**	(1,220,000)
Proceeds from the disposal of wealth management products		**1,239,855**	2,266,554
Payment for the structured deposits		**(361,000)**	(900,000)
Proceeds from the disposal of structured deposits		**470,340**	1,122,203
Uplift of restricted bank deposits		**251,830**	135,740
Placement of restricted bank deposits		**(2,578,903)**	(251,830)
Refund of deposits for purchase of interests in leasehold land held for own use		**26,827**	–
Other cash flows arising from investing activities		**1,757**	5,261
Net cash used in investing activities		**(2,356,650)**	(372,966)
Financing activities			
Capital element of lease rentals paid	18(c)	**(495)**	–
Interest element of lease rentals paid	18(c)	**(273)**	–
Payments of repurchase of shares	25(c)(ii)	**(27,243)**	(14,056)
Proceeds from new bank loans	18(c)	**4,208,851**	4,005,089
Repayment of bank loans	18(c)	**(6,024,961)**	(3,827,830)
Interest paid	18(c)	**(216,095)**	(171,780)
Dividends paid to equity shareholders of the Company		**(103,888)**	(232,942)
Net cash used in financing activities		**(2,164,104)**	(241,519)
Net (decrease)/increase in cash and cash equivalents		**(252,379)**	284,552
Cash and cash equivalents at 1 January		**455,623**	161,241
Effect of foreign exchange rate changes		**(1,846)**	9,830
Cash and cash equivalents at 31 December	18(a)	**201,398**	455,623

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The notes on pages 84 to 157 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 of Hong Kong Limited. 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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 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.

1 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements (Continued)

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 2019, the Group recorded net current liabilities totalling RMB2,393,923,000 (2018: RMB1,263,588,000). Based on the estimation of the future cash flows of the Group, after taking into account of (i) the cash balance as at 31 December 2019 and continuous net cash inflows from operating activities; (ii) the undraw bank facilities fall due after 31 December 2020; and (iii) the ability to renew the current bank loans upon expiry because of the Group's good track records and relationship with the banks, the directors are of the opinion that the Group will have sufficient working capital to finance its normal operation 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.

(c) Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. *New definition of a lease*
The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*
HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 27(b). For an explanation of how the Group applies lessee accounting, see note 1(j).

At the date of transition to HKFRS 16, the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.87%.

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

b. *Lessee accounting and transitional impact (Continued)*

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) The Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) When measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) When measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as the 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 27(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018 (Note 27(b))	11,999
Less: total future interest expenses	(4,454)
Total lease liabilities recognised at 1 January 2019	7,545

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in "property, plant and equipment" and presents lease liabilities separately in the consolidated statement of financial position. There is no impact on the opening balance of equity.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

b. *Lessee accounting and transitional impact (Continued)*

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	6,604,069	7,545	6,611,614
Total non-current assets	**7,478,566**	**7,545**	**7,486,111**
Lease liabilities (current)	–	1,027	1,027
Current liabilities	**6,244,555**	**1,027**	**6,245,582**
Net current liabilities	**(1,263,588)**	**(1,027)**	**(1,264,615)**
Total assets less current liabilities	**6,214,978**	**6,518**	**6,221,496**
Lease liabilities (non-current)	–	6,518	6,518
Total non-current liabilities	**276,474**	**6,518**	**282,992**
Net assets	**5,938,504**	**–**	**5,938,504**

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

c. *Impact on the financial result and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 18(c)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 18(d)).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

c. *Impact on the financial result and cash flows of the Group (Continued)*

The following tables give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	1,280,405	850	(1,073)	1,280,182	1,106,151
Finance costs	(214,804)	363	–	(214,441)	(172,081)
Profit before taxation	1,065,601	1,213	(1,073)	1,065,741	934,070
Profit for the year	853,222	1,213	(1,073)	853,362	774,020

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 16, Leases (Continued)

c. *Impact on the financial result and cash flows of the Group (Continued)*

	2019			2018
	Amounts reported under HKFRS 16 (A) RMB'000	**Estimated amounts related to operating leases as if under HKAS 17 (Notes 1 & 2) (B) RMB'000**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) RMB'000**	Compared to amounts reported under HKAS 17 RMB'000
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**4,424,430**	**(768)**	**4,423,662**	1,043,651
Net cash generated from operating activities	**4,268,375**	**(768)**	**4,267,607**	899,037
Capital element of lease rentals paid	**(495)**	**495**	**–**	–
Interest element of lease rentals paid	**(273)**	**273**	**–**	–
Net cash used in financing activities	**(2,164,104)**	**768**	**(2,163,336)**	(241,519)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

Other financial assets represented unlisted wealth management product investments and the structured deposits, which are classified as Fair Value Through Profit or Loss ("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.

(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.

1 Significant accounting policies (Continued)

(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.

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.

– Lease hold land is depreciated over the unexpired term of lease.

– 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.

1 Significant accounting policies (Continued)

(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.

(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 note1(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.

1 Significant accounting policies (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops and office furniture. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(g) and 1(k)(ii)).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(j) Leased assets (Continued)

As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in other property, plant and equipment and presents lease liabilities separately in the statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset, as set out in note 1(g). Impairment losses were accounted for in accordance with the accounting policy as set out in note 1(k). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

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

1 Significant accounting policies (Continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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.

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

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

(i) Credit losses from financial instruments (Continued)

Measurement of ECLs (continued)

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.

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)

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.

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.

1 Significant accounting policies (Continued)

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

(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, including right-of-use assets and construction in progress;

– intangible assets; and

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

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

– *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)).

(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)).

1 Significant accounting policies (Continued)

(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.

(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.

1 Significant accounting policies (Continued)

(s) Income tax (Continued)

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.

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.

1 Significant accounting policies (Continued)

(s) Income tax (Continued)

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.

(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.

1 Significant accounting policies (Continued)

(u) Revenue and other income (Continued)

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.

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.

(ii) Interest income

Interest income is recognised as it accrues under 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies (Continued)

(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.

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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.

(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 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.

2 Significant accounting judgement and estimates (Continued)

(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 expected future 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.

(e) Determining the lease term

As explained in policy note 1(j), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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:

	2019 **RMB'000**	2018 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
– Polyester filament yarns products	**7,471,569**	6,784,724
– Polyester thin films products	**1,925,297**	1,817,309
	9,396,866	8,602,033

The Group's customer base is diversified. No individual customer (2018: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2019.

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

4 Other revenue

	2019 **RMB'000**	2018 RMB'000
Bank interest income	**42,445**	6,056
Government grants	**107,817**	84,111
Sales of raw materials	**8,111**	26,874
Others	**(393)**	301
	157,980	117,342

Government grants include RMB107,104,000 (2018: RMB76,505,000) 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 RMB713,000 (2018: RMB7,606,000) were transferred from deferred income to consolidated income statement upon the conditions met (see note 23).

5 Other net gain

	2019 RMB'000	2018 RMB'000
Net gain on sale of property, plant and equipment	**312**	21
Donation	**(153)**	(81)
Net exchange loss	**(10,479)**	(6,733)
Net gain on forward foreign exchange contracts	**–**	1,831
Net realised and unrealised gains on other financial assets	**44,701**	106,582
Others	**3,378**	1,907
	37,759	103,527

6 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs:

	2019 RMB'000	2018 (Note) RMB'000
Interest on bank loans*	**70,366**	127,926
Interest on lease liabilities	**363**	–
Other interest expenses	**151,369**	44,155
	222,098	172,081
Less: interest expense capitalised into construction in progress	**(7,294)**	–
	214,804	172,081

* The borrowing costs have been capitalised at a rate of 2.92%-3% per annual in 2019 (2018: nil).

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

6 Profit before taxation (Continued)

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

	2019 RMB'000	2018 RMB'000
Contributions to defined contribution retirement plan	**9,082**	7,361
Salaries, wages and other benefits	**323,953**	254,886
	333,035	262,247

(c) Other items:

	2019 RMB'000	2018 RMB'000
Amortisation of interests in leasehold land held for own use under operating leases#	**–**	12,814
Amortisation of intangible assets (Note 12)	**2,170**	1,840
Depreciation (Note 11)		
– owned property, plant and equipment#	**393,388**	338,396
– right-of-use assets#	**12,944**	–
Auditors' remuneration		
– audited service	**1,400**	1,650
– non-audit service	**600**	650
Total minimum lease payments for leases previously classified on operating leases under HKAS17#	**–**	1,082
Research and development costs*	**297,481**	274,935
Cost of inventories**	**7,779,920**	7,238,112

* Research and development costs include RMB110,579,000 (2018: RMB103,763,000) 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 RMB524,186,000 (2018: RMB413,999,000) 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.

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

7 Income tax in the consolidated income statement

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

	2019 RMB'000	2018 RMB'000
Current tax – Income Tax		
Provision for the year	**169,880**	139,405
Under/(over)-provision in respect of prior years	**4,902**	(3,517)
Dividends withholding tax	**31,935**	15,480
	206,717	151,368
Deferred tax (Note 24(b))		
Origination and reversal of temporary differences	**5,662**	8,682
	212,379	160,050

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**1,065,601**	934,070
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdiction concerned	**458,138**	356,747
Tax effect of non-deductible expenses	**10,494**	5,449
Tax effect of non-taxable income	**(190,683)**	(118,186)
Tax effect of unused tax losses not recognised	**6,265**	2,226
Tax effect of use of unused tax losses not recognised in prior years	**–**	(3,087)
Under/(over)-provision in prior years	**4,902**	(3,517)
Tax concessions (Notes (iv) and (v))	**(108,672)**	(95,062)
Dividends withholding tax	**31,935**	15,480
Actual tax expenses	**212,379**	160,050

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: (Continued)

Note:

(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) The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5%. No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits during 2018.

(iv) 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.

(v) 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 Industry 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.

(vi) 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.

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	2019 Total RMB'000
Executive directors					
Mr. Sze Tin Yau	–	1,198	–	16	1,214
Mr. Wu Jinbiao	–	1,145	–	16	1,161
Non-executive directors					
Mr. Zeng Wu (iv)	167	–	–	–	167
Mr. Zhang Shengbai (v)	273	–	–	–	273
Independent non-executive directors					
Mr. Chan Shek Chi	123	–	–	–	123
Mr. Ma Yuliang (vii)	28	–	–	–	28
Mr. Lin Jian Ming (vi)	50	–	–	–	50
Mr. Shih Chun Pi (viii)	45	–	–	–	45
Total	686	2,343	–	32	3,061

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 Directors' emoluments (Continued)

	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 (ii)	158	–	–	–	158
Mr. Liu Jingui (iii)	158	–	–	–	158
Non-executive directors					
Mr. Zeng Wu (iv)	422	–	–	–	422
Independent non-executive directors					
Mr. Chan Shek Chi	118	–	–	–	118
Mr. Ma Yuliang (vii)	77	–	–	–	77
Mr. Lin Jian Ming (vi)	76	–	–	–	76
Mr. Shih Chun Pi (viii)	1	–	–	–	1
Total	1,023	2,047	–	30	3,100

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. Wu Zhongqin has resigned as an executive director with effect from 1 June 2018.

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

(iv) Mr. Zeng Wu has resigned as a non-executive director, with effect from 18 May 2019.

(v) Mr. Zhang Shengbai has been appointed as a non-executive director, with effect from 18 May 2019.

(vi) Mr. Lin Jian Ming has resigned as a non-executive director, with effect from 28 December 2018. Mr. Lin has been re-appointed as a non-executive director, with effect from 18 May 2019.

(vii) Mr. Ma Yuliang has resigned as an independent non-executive director with effect from 18 May 2019.

(viii) Mr. Shi Chun Pi has been appointed as an independent non-executive director with effect from 28 December 2018.

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2018: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the remaining three (2018: two) individuals are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and other emoluments	**1,740**	1,299
Retirement scheme contributions	**18**	16
	1,758	1,315

The emoluments of the three (2018: two) individuals with the highest emoluments are with the following bands:

	2019 **Number of individuals**	2018 Number of individuals
Nil to HK$1,000,000	**2**	2
Over HK$1,000,000	**1**	–

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 RMB853,222,000 (2018: RMB774,020,000) and the weighted average of 2,123,637,238 ordinary shares (2018: 2,125,699,375 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
Issued ordinary shares at 1 January	**2,125,308,000**	2,126,944,000
Effect of shares repurchased (Note 25(c)(ii))	**(1,670,762)**	(1,244,625)
Weighted average number of ordinary shares	**2,123,637,238**	2,125,699,375

There were no dilutive potential ordinary shares during the years ended 31 December 2019 and 2018, and therefore, diluted earnings per share is the same as the basic earnings per share.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

11 Property, plant and equipment

(a) Reconciliation of carrying amount

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

11 Property, plant and equipment (Continued)

(a) Reconciliation of carrying amount (Continued)

	Buildings held for own use RMB'000	Buildings leased for own use RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Interests in leasehold land for own use RMB'000	Total RMB'000
Cost:									
At 31December 2018	2,044,291	–	4,694,983	566,137	78,904	1,203,120	589,283	–	9,176,718
Impact on initial application of HKFRS 16 (Note)	–	5,242	–	–	–	–	(589,283)	591,586	7,545
At 1 January 2019	2,044,291	5,242	4,694,983	566,137	78,904	1,203,120	–	591,586	9,184,263
Exchange adjustments	1,231	–	–	19	14	1,410	–	210	2,884
Additions	–	–	–	78	–	2,769,023	–	64	2,769,165
Transfers	402,873	–	1,356,029	86,573	13,672	(1,859,147)	–	–	–
Disposals	–	–	(26,759)	–	(553)	–	–	–	(27,312)
At 31 December 2019	2,448,395	5,242	6,024,253	652,807	92,037	2,114,406	–	591,860	11,929,000
Accumulated depreciation and amortisation:									
At 31December 2018	(516,275)	–	(1,652,909)	(253,112)	(65,780)	–	(84,573)	–	(2,572,649)
Impact on initial application of HKFRS 16 (Note)	–	–	–	–	–	–	84,573	(84,573)	–
At 1 January 2019	(516,275)	–	(1,652,909)	(253,112)	(65,780)	–	–	(84,573)	(2,572,649)
Exchange adjustments	(240)	–	(91)	(21)	(5)	–	–	65	(292)
Charge for the year	(72,878)	(792)	(285,305)	(30,608)	(4,597)	–	–	(12,152)	(406,332)
Written back on disposals	–	–	25,342	–	525	–	–	–	25,867
At 31 December 2019	(589,393)	(792)	(1,912,963)	(283,741)	(69,857)	–	–	(96,660)	(2,953,406)
Net book value:									
At 31 December 2019	1,859,002	4,450	4,111,290	369,066	22,180	2,114,406	–	495,200	8,975,594

Note: The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

(i) As at 31 December 2019, the Group was applying for interests in leasehold land held for own use, with net book value of RMB100,139,000 (2018: RMB102,182,000) and RMB82,903,000 (2018: RMB87,652,000) from the relevant PRC and Vietnam government authorities respectively.

(ii) A building held for own use, with net book value of RMB45,570,000 (2018: RMB45,827,000), was secured to a bank loan (see note 21).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

11 Property, plant and equipment (Continued)

(a) Reconciliation of carrying amount (Continued)

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

	2019 RMB'000	2018 RMB'000
In Hong Kong		
– medium-term leases (Note 21)	**45,570**	45,827
Outside Hong Kong		
– medium-term leases	**2,313,082**	1,986,899
	2,358,652	2,032,726
Representing:		
Buildings held for own use	**1,859,002**	1,528,016
Interests in leasehold land held for own use under operating leases	**–**	504,710
Buildings leased for own use	**4,450**	–
Interests in leasehold land for own use carried at depreciated cost	**495,200**	–
	2,358,652	2,032,726

11 Property, plant and equipment (Continued)

(b) Right-of-use assets

The analysis of the net book value of the Group's right-of-use assets by class of underlying assets is as follows:

	Note	**31 December 2019 RMB'000**	1 January 2019 RMB'000
Included in "property, plant and equipment":			
Interests in leasehold land held for own use, carried at depreciated cost	(i)	**495,200**	507,013
Buildings leased for own use, carried at depreciated cost	(ii)	**4,450**	5,242
		499,650	512,255

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 (Note) RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Interests in leasehold land held for own use	**12,152**	12,893
– Buildings leased for own use	**792**	–
	12,944	12,893
Interest on lease liabilities (Note 6(a))	**363**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	11,999

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

11 Property, plant and equipment (Continued)

(b) Right-of-use assets (Continued)

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(d) and 22, respectively.

(i) Interests in leasehold land held for own use

Interests in leasehold land held for own use represents land use rights which the Group acquired for its business, where its manufacturing facilities are primarily located in the PRC and Vietnam. The Group is the registered owner of these property interests. Payments were made upfront to acquire these property interests from the relevant PRC government authorities and the previous registered owner of Vietnam, and there are no ongoing payments to be made under the terms of the land lease in the PRC, other than instalment payments set under the lease terms by the prior registered owner of the Vietnam.

The lease terms of interests in leasehold land held for own use are 50 years in the PRC and 41 years in Vietnam.

(ii) Buildings leased for own use

The Group has obtained the right to use other properties as its oil storage area and warehouse through tenancy agreements. The leases typically run for an initial period of 10 to 20 years. Lease payments are fixed with no variable payments in accordance with the lease teams set in the agreements. None of these leases include an option to renew the leases for an additional period after the end of the contract term.

12 Intangible Assets

	Software RMB'000	Emission rights of nitrogen oxides RMB'000	Total RMB'000
Cost:			
At 1 January 2018	4,658	4,320	8,978
Additions	3,525	2,143	5,668
At 31 December 2018 and 1 January 2019	8,183	6,463	14,646
Additions	604	–	604
At 31 December 2019	8,787	6,463	15,250
Accumulated amortisation:			
At 1 January 2018	(78)	(576)	(654)
Charge for the year	(726)	(1,114)	(1,840)
At 31 December 2018 and 1 January 2019	(804)	(1,690)	(2,494)
Charge for the year	(878)	(1,292)	(2,170)
At 31 December 2019	(1,682)	(2,982)	(4,664)
Net book value:			
At 31 December 2019	7,105	3,481	10,586
At 31 December 2018	7,379	4,773	12,152

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

Notes to the Financial Statements

(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$604,666,001	100%	–	100%	Manufacturing and sales of polyester filament yarns products
Billion High-tech (Note (i))	PRC	US$97,575,073	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$155,630,423	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.

14 Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	**567,153**	394,380
Work in progress	**55,596**	58,078
Finished goods	**1,581,278**	1,112,824
	2,204,027	1,565,282

Inventories recognised as expenses and included in profit or loss are the carrying amount of inventories sold, amounting to RMB7,779,920,000 (2018: RMB7,238,112,000).

15 Trade and other receivables

	2019 RMB'000	2018 RMB'000
Trade debtors, net of loss allowance	**245,440**	71,482
Bills receivable, net of loss allowance	**104,085**	115,334
Deposits, prepayments and other receivables	**1,862,124**	1,869,023
	2,211,649	2,055,839
Less: Non-current portion of deposits and prepayments	**(715,052)**	(862,345)
	1,496,597	1,193,494

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

As at 31 December 2019, the Group had discounted bank acceptance bills totalling RMB1,673,345,000 (2018: RMB1,224,889,000) and endorsed bank acceptance bills totalling RMB234,321,000 (2018: RMB152,013,000), 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.

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

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:

	2019 RMB'000	2018 RMB'000
Within 1 month	**219,078**	81,086
1 to 2 months	**32,029**	38,223
2 to 3 months	**67,095**	15,750
Over 3 months	**31,323**	51,757
	349,525	186,816

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 26(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.

	2019	2018
	RMB'000	RMB'000
Wealth management products	**103,972**	1,210,739
Structured deposits	**206,273**	303,999
	310,245	1,514,738

As at 31 December 2019, the Group invested in wealth management products issued by banks in the PRC with the aggregate principals amount of RMB100,000,000 (2018: RMB1,200,000,000). 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 banks in the PRC with the principal amount of RMB200,000,000 (2018: RMB300,000,000) and the term of 365 days. The expected annual rate of returns include a fixed rate of 2.22% and floating rates ranged from 1.78% to 1.82% which are indexed to the price of gold in Shanghai Gold Market.

17 Restricted bank deposits

The restricted bank deposits of RMB39,770,000 (2018: RMB251,830,000) and RMB2,539,133,000 (2018: Nil) were pledged to the banks to secure certain bank loans (see note 21) and bills payable (see note 19) respectively.

18 Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2019	2018
	RMB'000	RMB'000
Cash at bank and on hand	**201,398**	455,623

At 31 December 2019, cash at bank balances were placed with banks in the PRC amounted to RMB157,544,000 (2018: RMB331,023,000). 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	2019 RMB'000	2018 (Note) RMB'000
Profit before taxation		**1,065,601**	934,070
Adjustments for:			
– Bank interest income	4	**(42,445)**	(6,056)
– Net gain on sale of property, plant and equipment	5	**(312)**	(21)
– Net gain on forward foreign exchange contracts	5	**–**	(1,831)
– Net realised and unrealised gain on other financial assets	5	**(44,701)**	(106,582)
– Finance costs	6(a)	**214,804**	172,081
– Amortisation of interests in leasehold land held for own use under operating lease	6(c)	**–**	12,814
– Amortisation of intangible assets	6(c)	**2,170**	1,840
– Depreciation	6(c)	**406,332**	338,396
– Government grant from deferred income	23	**(713)**	(7,606)
– Foreign exchange loss	5	**10,479**	6,733
		1,611,215	1,343,838
Increase in inventories		**(638,745)**	(767,540)
Increase in trade and other receivables		**(280,797)**	(353,386)
Increase in trade and other payables		**3,732,296**	820,268
Increase in deferred income		**461**	471
Cash generated from operations		**4,424,430**	1,043,651

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets and lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Previously, cash payments under operating leases made by the Group as a lessee of RMB768,000,000 were classified as operating activities in the consolidated cash flow statement. Under HKFRS 16 all rentals paid on leases are now split into capital element and interest element and classified as financing cash outflows. Under the modified retrospective approach, the comparative information is not restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

Notes to the Financial Statements

(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

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans and other borrowings (Note 21) RMB'000	Lease liabilities (Note 22) RMB'000	Interest payables (Note 19) RMB'000	Total RMB'000
At 31 December 2018	3,407,099	—	2,814	3,409,913
Impact on initial application of HKFRS 16 (Note 1(c))	—	7,545	—	7,545
At 1 January 2019	3,407,099	7,545	2,814	3,417,458
Change from financing cash flows				
Proceeds from new bank loans	4,208,851	—	—	4,208,851
Repayment of bank loans	(6,024,961)	—	—	(6,024,961)
Capital element of lease rentals paid	—	(495)	—	(495)
Interest element of lease rentals paid	—	(273)	—	(273)
Interest paid	—	—	(216,095)	(216,095)
Total changes from financing cash flows	(1,816,110)	(768)	(216,095)	(2,032,973)
Exchange adjustments	22,993	(64)	—	22,929
Other changes				
Finance cost (Note 6(a))	—	363	221,735	222,098
At 31 December 2019	1,613,982	7,076	8,454	1,629,512

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

(c) Reconciliation of liabilities arising from financing activities (Continued)

	Bank loans and other borrowings (Note) RMB'000
At 1 January 2018	3,142,646
Change from financing cash flows	
Proceeds from new bank loans	4,005,089
Repayment of bank loans	(3,827,830)
Total changes from financing cash flows	177,259
Exchange adjustments	87,194
At 31 December 2018	3,407,099

Note:

The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 1(c) and 18(b).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(d) Total cash outflow for leases:

Amounts included in the cash flow statement for leases comprise the following:

	2019 **RMB'000**	2018 RMB'000
Within operating cash flows	**–**	884
Within investing cash flows	**64**	–
Within financing cash flows	**768**	–
	832	884

Note:

As explained in the note 18(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to the following:

	2019 **RMB'000**	2018 RMB'000
Lease rentals paid	**768**	884
Purchase of interests in leasehold land for own use	**64**	–
	832	884

19 Trade and other payables

	2019 **RMB'000**	2018 RMB'000
Trade creditors and bills payable	**6,106,810**	1,869,553
Other payables and accrued charges	**281,157**	265,372
Interest payables	**8,454**	2,814
Equipment payables	**1,181,039**	429,204
Construction payables	**156,443**	77,677
	7,733,903	2,644,620

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

Certain bills payable were secured by restricted bank deposits as at 31 December 2019 (2018: Nil) (see note 17).

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:

	2019 **RMB'000**	2018 RMB'000
Within 3 months	**2,789,314**	1,291,519
More than 3 months but within 6 months	**1,872,668**	573,329
More than 6 months but within 1 year	**1,442,913**	2,894
More than 1 year	**1,915**	1,811
	6,106,810	1,869,553

20 Contract liabilities

	2019 **RMB'000**	2018 RMB'000
Billings in advance of performance	**163,383**	211,784

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 amount of billings in advance of performance received is expected to be recognised as income within one year.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 Bank loans

At 31 December 2019, the bank loans were repayable as follows:

	2019 **RMB'000**	2018 RMB'000
Within 1 year or on demand	**1,142,549**	3,295,416
After 1 year but within 2 years	**90,082**	11,752
After 2 years but within 5 years	**378,364**	80,257
After 5 years	**2,987**	19,674
	471,433	111,683
	1,613,982	3,407,099

At 31 December 2019, the bank loans were secured as follows:

	2019 **RMB'000**	2018 RMB'000
Bank loans		
– secured	**51,714**	265,266
– unsecured	**1,562,268**	3,141,833
	1,613,982	3,407,099

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

	2019 **RMB'000**	2018 RMB'000
Properties (Note 11(a)(ii))	**45,570**	45,827
Restricted bank deposits (Note 17)	**39,770**	251,830
	85,340	297,657

Further details of the Group's interest rate risk are set out in note 26(c) and management of liquidity risk are set out in note 26(b).

22 Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		**1 January 2019 (Note)**	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,515	1,707	1,027	1,130
After 1 year but within 2 years	936	1,073	980	1,130
After 2 years but within 5 years	2,896	3,715	2,674	3,389
After 5 years	1,729	4,671	2,864	6,350
	5,561	9,459	6,518	10,869
	7,076	11,166	7,545	11,999
Less: total future interest expenses		(4,090)		(4,454)
Present value of lease liabilities		7,076		7,545

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

23 Deferred income

	2019 RMB'000	2018 RMB'000
At 1 January	**1,196**	8,331
Received during the year	**461**	471
Credit to profit or loss	**(713)**	(7,606)
At 31 December	**944**	1,196

	2019 RMB'000	2018 RMB'000
Current	**944**	598
Non-current	**–**	598
	944	1,196

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

24 Income tax in the consolidated statement of financial position

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

	2019 RMB'000	2018 RMB'000
Provision for the year	**169,880**	139,405
Under/(over) provision in respect of prior years	**4,902**	(3,517)
Tax paid	**(156,055)**	(144,614)
Dividends withholding tax	**31,935**	15,480
	50,662	6,754
Balance of tax provision relating to prior years	**92,137**	85,383
	142,799	92,137

24 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 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
At 1 January 2019	182,320	2,210	(20,337)	164,193
Charged/(credit) to profit or loss (Note 7(a))	7,384	(674)	(1,048)	5,662
At 31 December 2019	189,704	1,536	(21,385)	169,855

(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 RMB263,851,000 (2018: RMB191,410,000) 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 2019, temporary differences relating to the undistributed profits of the Group's certain subsidiaries in mainland China amounted to RMB2,951,220,000 (2018: RMB3,258,527,000).

Deferred tax liabilities of RMB147,561,000 (2018: RMB162,926,000) 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 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 25(c)(i) RMB'000	Share premium Note 25(d)(i) RMB'000	Capital redemption reserve Note 25(d)(ii) RMB'000	Exchange reserve Note 25(d)(v) RMB'000	Accumulated losses/ Retained profits RMB'000	Total RMB'000
Balance at 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	25(b)	–	(145,044)	–	–	–	(145,044)
Purchase of own shares	25(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	25(b)	–	–	–	–	(87,898)	(87,898)
Balance at 31 December 2018 and 1 January 2019		**17,873**	**110,049**	**1,460**	**(36,029)**	**231,790**	**325,143**
Changes in equity for 2019:							
Total comprehensive income for the year		**–**	**–**	**–**	**1,604**	**(13,585)**	**(11,981)**
Dividends approved in respect of the previous year	25(b)	**–**	**–**	**–**	**–**	**(103,888)**	**(103,888)**
Purchase of own shares	25(c)(ii)						
– par value paid		**(27)**	**–**	**–**	**–**	**–**	**(27)**
– premium paid		**–**	**(27,216)**	**–**	**–**	**–**	**(27,216)**
– transfer between reserves		**–**	**(27)**	**27**	**–**	**–**	**–**
Balance at 31 December 2019		**17,846**	**82,806**	**1,487**	**(34,425)**	**114,317**	**182,031**

Note:

The Group, including the Company, has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no net effect on the opening balance of the Company's equity as at 1 January 2019. See notes 1(c) and 29.

25 Capital, reserves and dividends (Continued)

(b) Dividends

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

	2019 RMB'000	2018 RMB'000
No interim dividend declared and paid (2018: HK4.7 cents per share)	–	87,898
No final dividend proposed after the end of the reporting period (2018: HK5.7 cents per share)	–	103,251
	–	191,149

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

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.7 cents per ordinary share (2018: HK8.4 cents per share)	**103,888**	145,044

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 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 2018 and 31 December 2019	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 2018		0.01	2,126,944,000	21,269,440	17,886,376
Repurchase of shares	25(c)(ii)	0.01	(1,636,000)	(16,360)	(13,758)
At 31 December 2018 and 1 January 2019		0.01	2,125,308,000	21,253,080	17,872,618
Repurchase of shares	25(c)(ii)	0.01	(3,210,000)	(32,100)	(26,994)
At 31 December 2019		0.01	2,122,098,000	21,220,980	17,845,624

25 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
March 2019	484,000	12.44	10.68	4,790
April 2019	626,000	13.60	11.50	6,733
May 2019	830,000	14.36	13.00	9,876
July 2019	186,000	4.73	4.48	751
August 2019	452,000	5.85	5.35	2,274
September 2019	36,000	5.98	5.90	194
November 2019	306,000	4.95	3.50	1,130
December 2019	290,000	6.15	5.05	1,495
	3,210,000			27,243

Pursuant to section 37(3) of the Companies Law of the Cayman Islands, 3,210,000 shares were repurchased in 2019 (2018: 1,636,000) 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 RMB27,000 was transferred from share premium to the capital redemption reserve in 2019 (2018: RMB13,000). The premium paid on the repurchase of the shares of approximately HK$31,290,000 (equivalent to RMB27,216,000) and HK$17,163,000 (equivalent to RMB14,043,000) were charged to share premium for the year of 2019 and 2018 respectively.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

25 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.

(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.

25 Capital, reserves and dividends (Continued)

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

(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 2019 and 2018, the Group's debt ratio, being the Group's total liabilities over its total assets, was 59.61% and 52.3% respectively.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. The management considered the impact of the application of HKFRS 16 on the capital structure was immaterial.

26 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.

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, 45.1% (2018: 9.6%) and 50.5% (2018: 10.9%) 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.

26 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

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

	2019		
	Expected loss rate	**Gross carrying amount RMB'000**	**Loss allowance RMB'000**
Current (not past due)	**0.01%**	**348,914**	**35**
Less than 1 month past due	**0.10%**	**204**	**–**
1 to 3 months past due	**1.00%**	**13**	**–**
3 months to 1 year past due	**10.00%**	**477**	**48**
More than 1 year	**100.00%**	**–**	**–**
		349,608	**83**

	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

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Trade and other receivables (Continued)

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 **RMB'000**	2018 RMB'000
Balance at 1 January	**110**	–
Amounts written off during the year	**(110)**	–
Impairment losses recognised during the year	**83**	110
Balance at 31 December	**83**	110

As set out in note 15, at 31 December 2019, the Group had discounted bank acceptance bills totalling RMB1,673,345,000 (2018: RMB1,224,889,000) and endorsed bank acceptance bills totalling RMB234,321,000 (2018: RMB152,013,000), 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 RMB1,907,666,000 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.

26 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 2019 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	**1,191,846**	**96,958**	**386,367**	**8,630**	**1,683,801**	**1,613,982**
Trade creditors and bills payable	**6,106,810**	**–**	**–**	**–**	**6,106,810**	**6,106,810**
Other payables and accrued charges	**289,611**	**–**	**–**	**–**	**289,611**	**289,611**
Lease liabilities (Note)	**1,707**	**1,073**	**3,715**	**4,671**	**11,166**	**7,076**
Equipment payables	**1,181,039**	**–**	**–**	**–**	**1,181,039**	**1,181,039**
Construction payables	**156,443**	**–**	**–**	**–**	**156,443**	**156,443**
	8,927,456	**98,031**	**390,082**	**13,301**	**9,428,870**	**9,354,961**

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

26 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

	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

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Other lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 1(c).

26 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			
	2019		2018	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Net fixed rate borrowings/ (deposits):				
Bank loans	**2.85%-4.78%**	**310,000**	2.85%-4.78%	1,216,667
Lease liabilities (Note)	**4.75%-4.90%**	**7,076**	0%	–
Restricted bank deposits	**1.75%-4.12%**	**(2,578,903)**	1.50%	(251,830)
		(2,261,827)		964,837
Variable rate borrowings/ (deposits):				
Bank loans	**1.22%-4.36%**	**1,303,982**	1.22%-4.36%	2,190,432
Cash and cash equivalents	**0.0001%-0.35%**	**(201,398)**	0.0001%-0.35%	(455,623)
		1,102,584		1,734,809
Total net (deposits)/ borrowings		**(1,159,243)**		2,699,646

Note:

The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See note 1(c).

26 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB9,854,000 (2018: decrease/increase RMB22,947,000).

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 2018.

(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.

26 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					
	2019			2018		
	USD RMB'000	**HK$ RMB'000**	**EUR RMB'000**	USD RMB'000	HK$ RMB'000	EUR RMB'000
Trade and other receivables	**94,633**	**–**	**–**	87,811	–	–
Cash and cash equivalents	**16,203**	**141**	**245**	16,987	138	1,087
Trade and other payables	**(173,647)**	**–**	**(8,397)**	(155,477)	–	(6,543)
Bank loans	**(27,164)**	**–**	**–**	–	–	–
Gross and net exposure arising from recognised assets and liabilities	**(89,975)**	**141**	**(8,152)**	(50,679)	138	(5,456)

26 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			
	2019		2018	
	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%**	**(3,824)**	5%	(2,154)
	(5%)	**3,824**	(5%)	2,154
HK$	**5%**	**6**	5%	6
	(5%)	**(6)**	(5%)	(6)
EUR	**5%**	**(346)**	5%	(232)
	(5%)	**346**	(5%)	232

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.

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 2018.

26 Financial risk management and fair values (Continued)

(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.

		Fair value measurements as at 31 December 2019 using		
	Fair value at 31 December 2019	**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				
Other financial assets	**310,245**	**–**	**310,245**	**–**

26 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	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				
Other financial assets	1,514,738	–	1,514,738	–

During the years ended 31 December 2018 and 2019, 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 financial assets in Level 2 is determined by discounting the expected future cash flows at prevailing market interest rate as at the end of the reporting period. The discount rate used in derived from the relevant China Government Brenchmark Yield Curve as at the end of the reporting period plus an adequate constant credit spread.

27 Commitments

(a) Capital commitments outstanding at 31 December 2019 not provided for in the consolidated financial statements were as follows:

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
Authorised but not contracted for	**195,022**	1,480,499
Contracted for	**1,607,060**	1,638,920
	1,802,082	3,119,419

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

	2018
	RMB'000
Within 1 year	1,130
After 1 year but within 5 years	4,519
Over 5 years	6,350
	11,999

The Group is the lessee in respect of oil storage area and warehouse held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the Group's future lease payments are disclosed in note 22.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 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 37.13% of the Company's issued share capital
Mr. Sze Tin Yau	Director of the Company and holding 30.33% of the Company's issued share capital
Mr. Wu Jinbiao	Director of the Company and holding 6.45% of the Company's issued share capital

(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:

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**5,431**	5,233
Post-employment benefits	**52**	91
	5,483	5,324

Total remuneration is included in "staff costs" (see note 6(b)).

(b) Transactions with related parties

The Group had not entered any transactions with related parties for 2019 and 2018.

28 Material related party transactions (Continued)

(c) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

29 Company-level statement of financial position

	Note	2019 RMB'000	2018 (Note) RMB'000
Non-current assets			
Investments in subsidiaries	13	**–**	–
Current assets			
Trade and other receivables		**878,143**	858,959
Cash and cash equivalents		**1,715**	74,868
		879,858	933,827
Current liabilities			
Bank loans		**274,574**	455,554
Trade and other payables		**423,253**	153,130
		697,827	608,684
Total assets less current liabilities		**182,031**	325,143
NET ASSETS		**182,031**	325,143
CAPITAL AND RESERVES	25(a)		
Share Capital		**17,846**	17,873
Reserves		**164,185**	307,270
TOTAL EQUITY		**182,031**	325,143

Note:

The Company has initially applied HKFRS 16 using the modified retrospective method. As the Company doesn't have any leasing arrangement during the year ended 31 December 2019 and 2018, there's no financial impact on adopting HKFRS 16.

30 Non-adjusting events after the reporting period

The coronavirus outbreak since early 2020 has brought about uncertainties in the Group's operating environment.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures after due consideration. These contingency measures include: scaling up the production and building up inventory in the Vietnam factory; increasing the options for logistics movements; assessing our suppliers' readiness; negotiating with customers on delivery timetable; continuing to advance the production and sales plan of industrial fiber in an orderly manner; keeping good communication with the banks to have the assistance to mitigate any potential liquidity risk. The Group will keep our contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak has caused production and delivery delays. The factories located in Fujian Province of mainland China suspended their partial operation for about two weeks following the government regulations after the Lunar New Year holidays and gradually resumed from 17 February 2020. Due to the suspension or limited services of transportation facilities in certain areas, some employees in the affected provinces and cities, especially those in Hubei region, are still unable to return to the production units as planned. While these employees did not make up the majority, the productivity of the Group's factories located in mainland China gradually achieved normal level in March 2020. Orders placed were in orderly production now. The production and sales in Vietnam were not impacted and the scale of production will expand as planned.

Based on the information currently available, downstream enterprises of the Group resumed their work gradually. The management considered the repayment of debtors were not significantly impacted. The Group will keep its contingency measures under review as the situation evolves and continue to monitor its financial and liquidity position to have it remain healthy.

The actual impacts may differ from these estimates as situation continues to evolve and further information may become available.

31 Comparative figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

32 Jointly controlling parties

At 31 December 2019, 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.

33 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, Definition of a business	1 January 2020
Amendments to HKFRS 1 and HKAS 8, Definition of material	1 January 2020

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 it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

Financial Summary

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**9,396,866**	8,602,033	7,025,317	6,125,251	5,461,403
Cost of sales	**(7,779,920)**	(7,238,112)	(6,011,995)	(5,413,436)	(4,870,772)
Gross profit	**1,616,946**	1,363,921	1,013,322	711,815	590,631
Profit before taxation	**1,065,601**	934,070	631,292	388,153	273,123
Income tax	**(212,379)**	(160,050)	(115,149)	(72,802)	(71,235)
Profit for the year	**853,222**	774,020	516,143	315,351	201,888

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets	**6,791,170**	4,980,967	4,606,675	2,981,139	3,183,218
Non-current assets	**9,701,232**	7,478,566	5,868,436	5,653,209	5,718,562
Total assets	**16,492,402**	12,459,533	10,475,111	8,634,348	8,901,780
Current liabilities	**9,185,093**	6,244,555	4,820,126	3,301,990	3,603,422
Non-current liabilities	**646,849**	276,474	169,121	160,704	134,372
Total liabilities	**9,831,942**	6,521,029	4,989,247	3,462,694	3,737,794
Net assets	**6,660,460**	5,938,504	5,485,864	5,171,654	5,163,986
Share capital	**17,846**	17,873	17,886	18,112	18,317
Reserves	**6,642,614**	5,920,631	5,467,978	5,153,542	5,145,669
Total equity	**6,660,460**	5,938,504	5,485,864	5,171,654	5,163,986

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.