



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

2020

INTERIM REPORT



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Summary

Interim results for the six months ended 30 June 2020

- Revenue was approximately RMB5,430 million, representing a decrease of approximately 30.2% from that for the corresponding period of last year.
- Net profit attributable to owners of the Company was approximately RMB155 million, representing a decrease of approximately 24.8% from that for the corresponding period of last year.
- Earnings per share were approximately RMB0.13 (same period last year: approximately RMB0.17).

Corporate Information

EXECUTIVE DIRECTORS

Ms. Zhang Hongxia (*Chairman*)
Ms. Zhang Yanhong (*Vice Chairman*)
Ms. Zhao Suwen (*Chief Financial Officer, Authorized Representative*)
Mr. Zhang Jinglei (*Company Secretary, Authorized Representative*)

NON-EXECUTIVE DIRECTOR

Ms. Zhao Suhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Yau, George
Mr. Chen Shuwen
Mr. Liu Yanzhao

SUPERVISORS

Ms. Wang Xiaoyun
Ms. Fan Xuelian
Ms. Bu Xiaoxia

COMPANY SECRETARY

Mr. Zhang Jinglei

AUDIT COMMITTEE

Mr. Chan Wing Yau, George (*Chairman*)
Mr. Chen Shuwen
Mr. Liu Yanzhao

REMUNERATION COMMITTEE

Mr. Liu Yanzhao (*Chairman*)
Ms. Zhang Hongxia
Mr. Chen Shuwen

NOMINATION COMMITTEE

Ms. Zhang Hongxia (*Chairman*)
Mr. Chen Shuwen
Mr. Liu Yanzhao

AUTHORISED REPRESENTATIVES

Ms. Zhao Suwen
Mr. Zhang Jinglei

PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADDRESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Wei Fang Road
Zouping Economic Development Zone
Zouping City, Shandong Province
The PRC

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited

HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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

Corporate Information

COMPANY WEBSITE

www.wqfz.com

STOCK CODE

2698

INVESTOR RELATIONS

Ms. Xu Hang

Tel: (852) 2815 1090

Fax: (852) 2815 0089

Email: Rebecca@wqfz.com

INVESTOR RELATIONS AND PUBLIC RELATIONS CONSULTANT

Christensen China Limited

Tel: (852) 2117 0861

Fax: (852) 2117 0869

Email: weiqiao@ChristensenIR.com

Chairman's Statement

It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the unaudited consolidated interim results of the Company together with its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 (the "Period" or "Period under Review").

In the first half of 2020, the ongoing spread of 2019 novel coronavirus pandemic (the "Pandemic") around the world delivered a serious blow to the global economy and market demands, causing significant impacts on the demands of textile and apparel industry in China.

In terms of export markets, the textile and apparel enterprises in China experienced cancellation or reduction of orders or request for delayed delivery by overseas customers since mid-to-late April 2020. Given that there was still no sign of substantial improvement in the containment of the Pandemic abroad as at the end of June 2020 and the market demands remained sluggish, the textile and apparel enterprises in China would be still faced with certain pressure in obtaining new export orders.

In terms of domestic market, the Chinese government adopted a series of proactive and effective measures to address the impacts of the Pandemic and pushed forward resumption of work and production in an orderly manner. As at the end of June 2020, with the containment of the Pandemic and resumption of industrial production, the domestic market also gradually recovered. According to the statistics from the National Bureau of Statistics of the PRC, the year-on-year decline in total retail sales of consumer goods of the country gradually narrowed since March 2020, leading to a year-on-year decrease of approximately 11.4% for the first six months of 2020, narrowed by 9.1 percentage points as compared to that for the first two months of 2020.

During the Period, due to the negative impact of the Pandemic, the domestic and overseas textile markets remained sluggish, resulting in a decrease in demands for textile products. Accordingly, the Group recorded a year-on-year decrease in the sales volume of cotton textile products and a year-on-year decline in sales prices. And there was also a year-on-year decline in the sales volume of electricity, leading to the corresponding year-on-year decrease in the revenue and net profit of the Group. During the Period under Review, the Group recorded revenue of approximately RMB5,430 million, representing a decrease of approximately 30.2% as compared with that for the corresponding period of 2019. Net profit attributable to owners of the Company was approximately RMB155 million, representing a decrease of approximately 24.8% as compared with that for the corresponding period of 2019. Earnings per share were RMB0.13. The gross profit margin was approximately 7.6%, down by approximately 0.2 percentage point as compared with that for the corresponding period of last year.

In terms of the textile business, the Group continued to push forward business transformation and upgrading, made great efforts to improve its intelligent operation, and meanwhile optimized its product portfolio in an active manner, enhanced industrial upgrade, increased the proportion of mid-to-high-end products and achieved high-quality development. The Group built and put into production a green and intelligent integrated production line covering yarn spinning and weaving in 2019, realising intelligent production over the entire process, intelligent control over the system, informatization of online testing and a green production process which further upgraded the equipment. The Group continued to focus on the research and development of new products based on market demands and fashion trends. By connecting closely daily and functional features, the Group developed new products including denim fabric series of pure cotton and anti-bacterial and woven and super-soft knitwear series. The high-count and high-density home textile series – lyocell (a home-made product) and the Antaibei anti-bacterial yarn series (安泰貝抗菌系列紗線) which were developed by the Group in cooperation with scientific research institutes were successfully put into commercial production. Moreover, a number of the Group's products received awards from competitions such as China International Fabrics Design Competition (中國國際面料設計大賽), China Eco-friendly Fabric Design Competition (中國生態環保面料設計大賽) and China Fashion Fabrics Design Competition (中國時

Chairman's Statement

尚面料設計大賽)。In particular, the “one-time weaved, duvet-filled 3D graphene seamless comforter (一次織造成型石墨烯立體無縫羽絨被)” was granted the title of “2019 China Top Ten Innovative Textile Products (二零一九年度中國十大類紡織創新產品)” by China National Textile and Apparel Council.

In terms of the electricity and steam business, the Group continuously improved management efficiency and reduced relevant wastage by adopting refined and modular management. During the Period under Review, although the electricity business of the Group continued to record profits, the Group's sales volume of electricity decreased on a year-on-year basis due to the negative impact of the Pandemic.

Despite the complexity in external operating environment, the Group's extensive sales channel network, continuous optimization of product portfolio and intelligent equipment are essential for the Group to maintain stable operation and seize opportunities to increase its market shares. During the Period, the Group also carried out internal management reform to optimise its management structure by promoting the management of “integrated plant management system (大分廠制)”, with an aim to build a younger, more professional and talented team of management personnel and streamline its organizational structure, so as to improve operation efficiency.

Looking forward to the second half of 2020, as to the Pandemic abroad, there is no clear sign of inflection point yet. The global macro economy is faced with great uncertainties and downward pressure, which is expected to continue to cause adverse impact on global industrial production, investment and consumption as well as impact on global supply chain system. The Group will keep a close watch on developments in the domestic and international arena and the industry, and will make further efforts to promote high-quality development.

Based on its existing green and intelligent textile production lines, the Group will further step up efforts to improve its intelligent operation and push forward its digital and intelligent transformation, so as to further reduce production costs and improve profitability. As to product upgrade, the Group will continue to strengthen cooperation with various textile colleges and universities or scientific research institutes, increase investments in technology research and development, enhance the synergetic development of industry-university-research projects, improve innovation capabilities, increase investment in the research and development of functional fabrics and promote optimization and upgrading of its product portfolio. At the same time, the Group will continue to optimise the productivity and operation of its power plants, with an aim to improve its overall profitability. The Group will also further improve its standards for environmental protection, laying a solid foundation for the sustainable and healthy development.

The management of Weiqiao Textile and I would like to express our sincere gratitude to the shareholders for their unwavering concern and support towards the Group. Amidst the difficult operating environment, we will uphold the corporate motto of “ambition, pragmatism and innovation”, and improve business stability and profitability. While continuous efforts will be made to increase its intrinsic value and create greater returns for its shareholders, the Group is committed to continuously contributing to the sustainable development of society.

Ms. Zhang Hongxia
Chairman

Shandong, the PRC
14 August 2020

Management Discussion and Analysis

INDUSTRY REVIEW

In the first half of 2020, due to the world-wide spread of the Pandemic and the ongoing geopolitical conflict, the global economy suffered significant adverse impact, resulting in the decrease in the demands for textile products in both domestic and overseas markets and the product price.

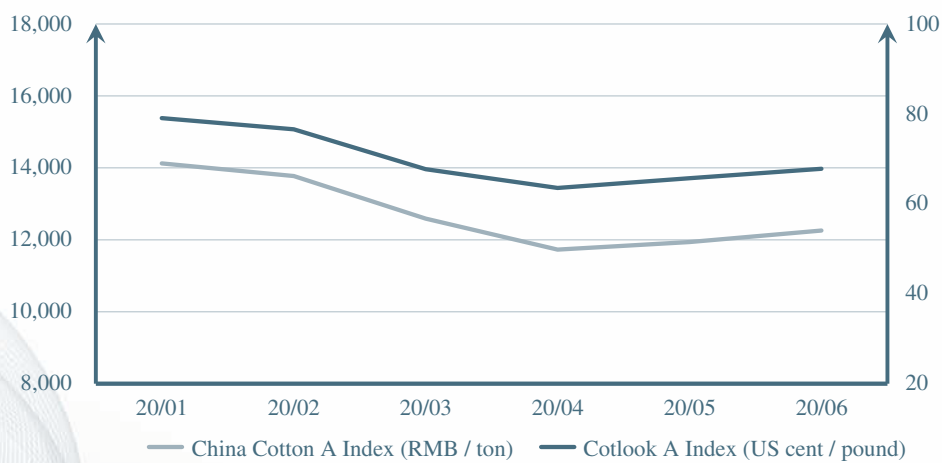
During the Period under Review, with the easing of travel restrictions and increasing consumption activities in China, the domestic consumption market of textile products and apparel gradually recovered. According to the statistics from the National Bureau of Statistics of the PRC, for the first six months of 2020, the retail sales of commodities such as apparel, footwear, headwear and knitwear above a designated size across the country recorded a year-on-year decrease of approximately 19.6%, narrowed by 12.6 percentage points as compared to that for the first quarter of 2020. Benefiting from a series of national policies of “guarantee livelihood (保民生)” and “promote consumption (促消费)”, online sales experienced an accelerated recovery. The online retail sales of wearing commodities in the country in June basically returned to the level of the corresponding period of last year, recording a year-on-year decrease of approximately 2.9% in the aggregated retail sales for the first six months of 2020, narrowed by 12.2 percentage points as compared to that for the first quarter of 2020.

During the Period under Review, for the exports of textile products and apparel from the PRC, there was a clear phenomenon of more export of textile products and less export of apparel. According to the statistics from the General Administration of Customs of the PRC, for the first six months of 2020, the aggregated exports of textile products and apparel from the PRC was approximately US\$125.2 billion, representing a year-on-year increase of approximately 3.2%. The export of textile products was approximately US\$74.1 billion, representing a year-on-year increase of approximately 27.8%, which was driven by the increase in the export of anti-pandemic textile products. And the aggregated export of apparel was approximately US\$51.1 billion, representing a year-on-year decrease of approximately 19.4%.

Management Discussion and Analysis

In terms of textile raw materials, as affected by the Pandemic, the tightening of national cotton reserve and other factors, the domestic and overseas cotton prices in the global cotton market first recorded increase, but then dropped during the first half of 2020. During the Period, the China Cotton A Index recorded approximately RMB12,734 per ton in average, representing a year-on-year decrease of approximately 19.0%. The Cotlook A Index for the international market was approximately US70.06 cents per pound in average, representing a year-on-year decrease of approximately 14.6%. The movement of China Cotton A Index and Cotlook A Index during the first half of 2020 were as follows:

The Movement of China Cotton A Index and Cotlook A Index in the first half of 2020

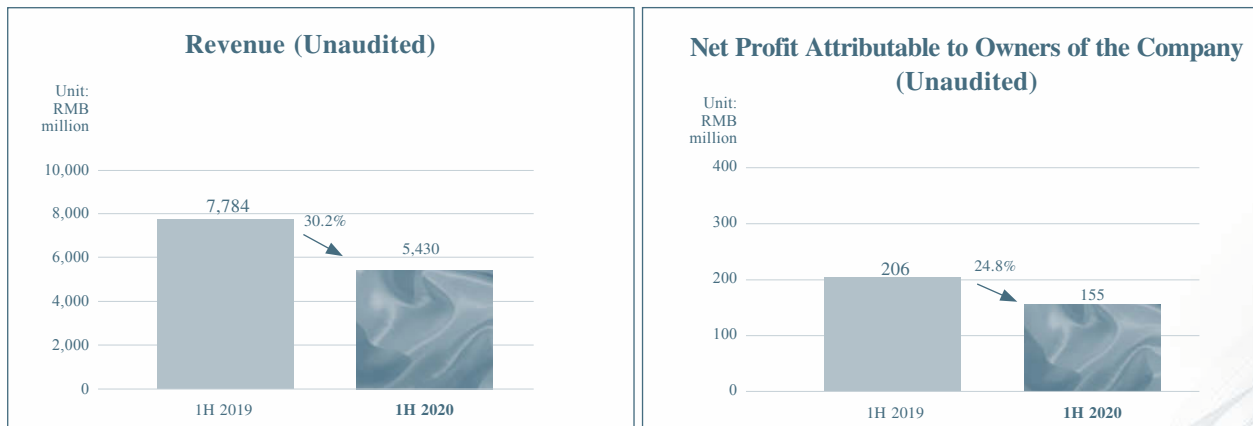


Data sources: China Cotton Association and www.cottonchina.org.cn

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2020 and the corresponding period of 2019, the Group's unaudited revenue and the net profit attributable to owners of the Company, together with the comparative figures are as follows:

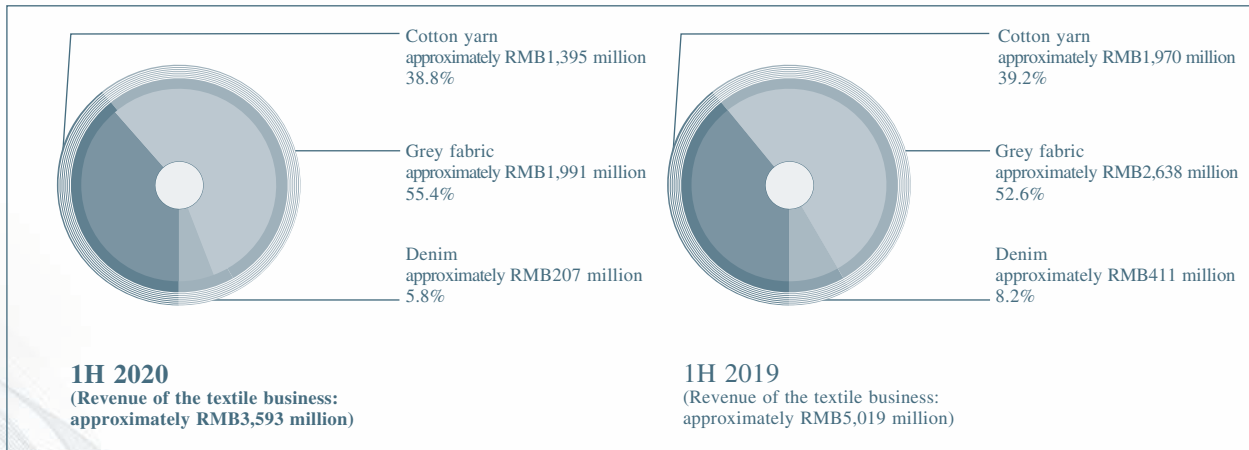


For the six months ended 30 June 2020, the Group recorded revenue of approximately RMB5,430 million, representing a decrease of approximately 30.2% as compared with the corresponding period of 2019, where the revenue of textile products was approximately RMB3,593 million, representing a decrease of approximately 28.4% over the corresponding period of last year, which was mainly due to the reason that the domestic and overseas textile markets continued to be weak as a result of the negative impact of the Pandemic, resulting in a decline in the demand for textile products and the corresponding decrease in the revenue of the Group's three types of textile products. The revenue of electricity and steam was approximately RMB1,837 million, representing a decrease of approximately 33.6% over the corresponding period of last year, which was mainly due to the reason that the demand for electricity from the downstream customers decreased as a result of the negative impact of the Pandemic, resulting in the corresponding decrease in the Group's sales volume of electricity. The net profit attributable to owners of the Company was approximately RMB155 million, representing a decrease of approximately 24.8% as compared with approximately RMB206 million as recorded for the corresponding period of last year, which was mainly due to the reason that the demand for electricity from the downstream customers decreased, resulting in a decrease in the sales volume of electricity and a narrower gross profit margin of the electricity business.

Management Discussion and Analysis

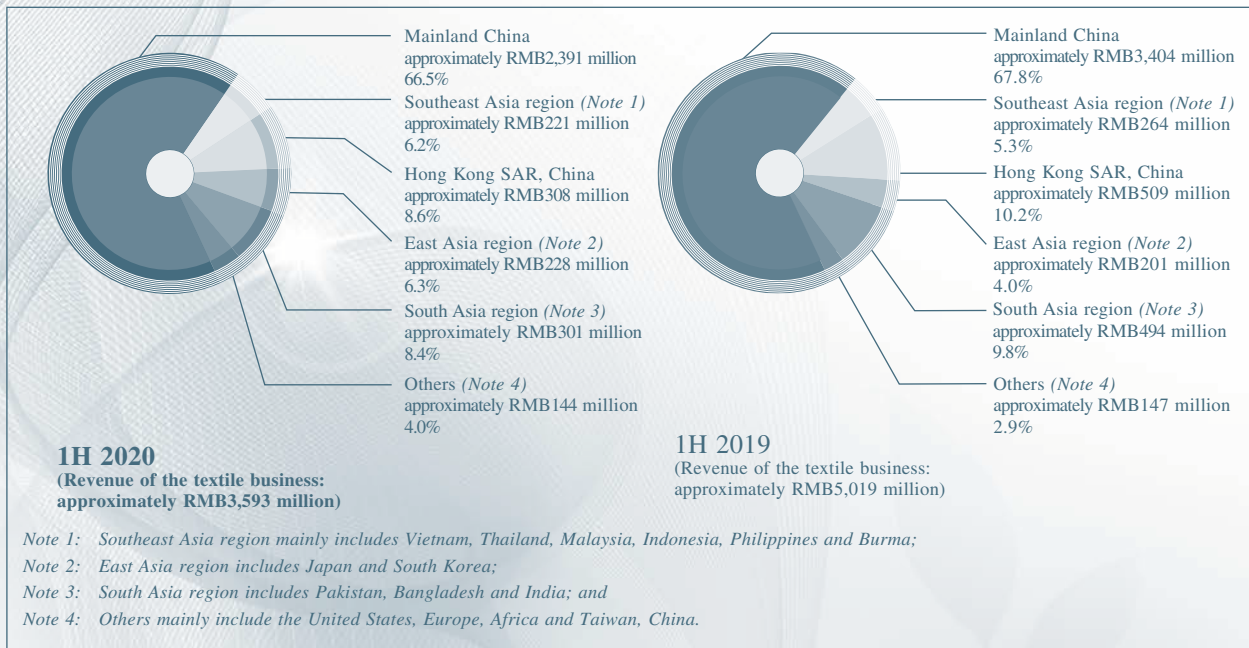
Textile Business

The charts below are the comparison of the breakdown of revenue of the Group's textile business categorized by products for the six months ended 30 June 2020 and the corresponding period of 2019, respectively:



For the six months ended 30 June 2020, revenue of the Group's cotton yarn, grey fabric and denim recorded a decrease respectively over the corresponding period of last year, which was mainly attributable to the sluggish demand from global textile market during the Period, resulting in the decrease in both sales volume and unit selling price of the Group's three types of textile products over the corresponding period of last year.

The charts below are the comparison of the breakdown of revenue of the Group's textile business categorized by geographical location for the six months ended 30 June 2020 and the corresponding period of 2019, respectively:



Management Discussion and Analysis

For the six months ended 30 June 2020, revenue generated from overseas and domestic markets accounted for approximately 33.5% and approximately 66.5% of the Group's total revenue respectively. The proportion of overseas and domestic sales remained substantially unchanged from that for the corresponding period of last year.

During the Period under Review, the Group adjusted the production plans timely based on market demand. The output of the Group's cotton yarn was approximately 174,000 tons, representing a decrease of approximately 12.1% as compared with that for the corresponding period of last year; the output of grey fabric was approximately 352 million meters, representing a decrease of approximately 12.7% as compared with that for the corresponding period of last year; the output of denim was approximately 26 million meters, representing a decrease of approximately 16.1% as compared with that for the corresponding period of last year.

All production bases of the Group are located in Shandong Province, the PRC. The production and operation of the Group remained steady and all facilities were functioning in good conditions during the Period under Review.

Electricity and Steam Business

As at 30 June 2020, the installed capacity of the Group's thermal power assets amounted to 2,760 MW, which was the same as that as at 31 December 2019. During the Period under Review, the power generation amount of the Group was approximately 6,149 million kWh, representing a decrease of approximately 30.0% as compared with that for the corresponding period of last year. The volume of electricity sold by the Group amounted to approximately 5,088 million kWh, representing a decrease of approximately 33.5% as compared with that for the corresponding period of last year, which was mainly attributable to the decrease in demand for electricity from downstream customers during the Period due to the negative impact of the Pandemic, resulting in the corresponding decrease in the sales volume of electricity.

During the Period under Review, the average utilization hours of the power generating units of the Group amounted to approximately 2,228 hours, representing a decrease of approximately 956 hours as compared with approximately 3,184 hours as recorded for the corresponding period of last year.

For the first half of 2020, the revenue of the Group's sales of electricity and steam amounted to approximately RMB1,837 million, representing a decrease of approximately 33.6% as compared with the corresponding period of last year; the gross profit thereof was approximately RMB432 million, representing a decrease of approximately 38.5% as compared to the corresponding period of last year. The decrease in both revenue and gross profit from sales of electricity of the Group as compared with the corresponding period of last year was mainly attributable to the decrease in demand for electricity from downstream customers during the Period due to the negative impact of the Pandemic, resulting in the decrease in the sales volume of electricity.

The Group has fully implemented the ultra-low emission by installing flue gas dedusting facilities (煙氣除塵裝置) and desulphurization and denitrification facilities (脫硫脫硝裝置) for all of the Group's power generating units.

Management Discussion and Analysis

FINANCIAL REVIEW

Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's gross profit and gross profit margin attributable to its major products for the six months ended 30 June 2020 and the corresponding period in 2019, respectively:

Product categories	For the six months ended 30 June			
	2020		2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	67,718	4.9	27,918	1.4
Grey fabric	(118,423)	(5.9)	(156,825)	(5.9)
Denim	28,593	13.8	34,584	8.4
Electricity and steam	432,498	23.5	702,478	25.4
Total	410,386	7.6	608,155	7.8

For the six months ended 30 June 2020, the gross profit from the sales of textile products of the Group amounted to approximately RMB-22 million, representing a decrease of loss as compared with approximately RMB-94 million for the corresponding period of last year. The gross profit margin was approximately -0.6%, representing an increase of approximately 1.3 percentage points over the corresponding period of last year, which was mainly due to the reason that the Chinese government has issued various preferential policies to mitigate the impact of the Pandemic, and benefitting from the short-term concession policy for enterprises' social insurance premiums issued by the government of Shandong Province, the payment of social insurance premiums and the labour costs of the Group decreased. The gross profit from the sales of electricity and steam of the Group decreased by approximately 38.5% from the corresponding period of last year to approximately RMB432 million, and the gross profit margin was approximately 23.5%, down by approximately 1.9 percentage points from that for the same period of last year, which was primarily due to the reason that the Group's sales volume of electricity and steam decreased during the Period, resulting in an increase in the unit fixed costs over the corresponding period of last year.

Selling and Distribution Expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses were approximately RMB63 million, representing a decrease of approximately 7.4% as compared with approximately RMB68 million as recorded for the corresponding period of last year. Among these expenses, transportation costs decreased by approximately 10.5% to approximately RMB34 million from approximately RMB38 million for the same period of last year, which was mainly attributable to the decrease in the sales volume of the Group's textile products and the decrease in the unit transportation price during the Period. Salary of the sales staff was approximately RMB15 million, representing a decrease of approximately 11.8% from approximately RMB17 million for the corresponding period of last year, which was mainly due to the decrease in the sales volume of cotton textile products. Sales commission was approximately RMB6 million, representing a decrease of approximately 14.3% from approximately RMB7 million for the corresponding period of last year, which was mainly due to the decrease in the revenue of overseas sales, resulting in the corresponding decrease in the commissions paid.

Management Discussion and Analysis

Administrative Expenses

For the six months ended 30 June 2020, the administrative expenses of the Group were approximately RMB132 million, representing a decrease of approximately 1.5% from approximately RMB134 million for the corresponding period of last year, which was primarily attributable to the Group's benefiting from the short-term concession policy for the enterprises' social insurance premiums during the Period, resulting in the decrease in the payment of the social insurance premiums of the administrative staff.

Finance Costs

For the six months ended 30 June 2020, the finance costs of the Group were approximately RMB57 million, representing a decrease of approximately 24.0% from approximately RMB75 million for the corresponding period of last year, primarily due to the redemption of the corporate bonds in the amount of approximately RMB963 million in November 2019 upon maturity by the Company according to the bond terms and the further optimization of the debt structure and the repayment of a portion of the interest-bearing bank loans by the Group.

Income Tax Expenses

The income tax expenses of the Group decreased from approximately RMB188 million for the first half of 2019 to approximately RMB125 million for the first half of 2020, representing a decrease of approximately 33.5%, which was mainly attributable to the decrease in the Group's profit before tax.

Net Profit Attributable to Owners of the Company and Earnings per Share

Net profit attributable to owners of the Company was approximately RMB155 million for the six months ended 30 June 2020, representing a decrease of approximately 24.8% from approximately RMB206 million for the corresponding period of last year.

For the six months ended 30 June 2020, basic earnings per share of the Company were RMB0.13.

Management Discussion and Analysis

Liquidity and Financial Resources

The working capital of the Group is mainly financed by cash inflow from operating activities. For the six months ended 30 June 2020, the Group recorded a net cash inflow from operating activities of approximately RMB215 million, a net cash inflow from investing activities of approximately RMB72 million and a net cash outflow for financing activities of approximately RMB171 million.

As of 30 June 2020, cash and cash equivalents of the Group were approximately RMB9,991 million, representing an increase of approximately 1.2% from approximately RMB9,875 million as of 31 December 2019, mainly attributable to net cash inflow generated from operating activities of the Group during the Period. The Group will continue to take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs so as to maintain a sound and stable financial position.

For the six months ended 30 June 2020, the average turnover days of the Group's receivables were 12 days, representing an increase of 2 days from 10 days for the corresponding period of 2019, which had no material changes as compared with that for the corresponding period of last year.

For the six months ended 30 June 2020, the inventory turnover days of the Group were 103 days, representing an increase of 23 days from 80 days for the same period of 2019, mainly attributable to the weak demand from domestic and overseas markets, resulting in a decrease in the sales volume of the textile products during the Period.

For the six months ended 30 June 2020, the Group did not use financial derivative instruments and the Group also did not use financial instruments for the corresponding period of last year.

Capital Structure

The major objective of the Group's capital management is to ensure the ongoing operations and maintain a satisfactory capital ratio in order to support its business operations and maximize shareholders' interests. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure in order to reduce capital cost.

As at 30 June 2020, the debts of the Group were mainly bank loans totaling of approximately RMB2,059 million (31 December 2019: approximately RMB2,109 million). As at 30 June 2020, the Group's gearing ratio (net debt (after deducting interest-bearing bank and other borrowings of cash and cash equivalents) divided by total equity) was approximately -42.9% (31 December 2019: approximately -42.1%).

Details of the Group's outstanding bank loans as at 30 June 2020 are set out in Note 18 to the unaudited interim condensed consolidated financial statements. The Group manages its interest expenses through a fixed rate and floating rate liabilities portfolio. As at 30 June 2020, approximately 73.0% of the Group's bank loans were subject to fixed interest rates while the remaining of approximately 27.0% were subject to floating interest rates.

As at 30 June 2020, the Group's loans were denominated in Renminbi, while cash and cash equivalents were denominated in Renminbi, US dollars and Hong Kong dollars, of which cash and cash equivalents denominated in US dollars and Hong Kong dollars represented approximately 2.6% of the total bank balances and cash.

Management Discussion and Analysis

Employees and Remuneration Policies

As at 30 June 2020, the Group had a total of approximately 47,000 employees, representing a decrease of approximately 5,000 employees as compared with that for the corresponding period of last year. Decrease in the number of the employees was mainly normal employee turnover during the Period. Total staff costs of the Group during the Period amounted to approximately RMB1,369 million, representing a decrease of approximately 15.7% from approximately RMB1,624 million as recorded for the corresponding period of last year, which was mainly attributable to on one hand the decrease in the number of employees of the Group during the Period, resulting in the corresponding reduction of staff salaries paid, and on the other hand the Group's benefiting from the short-term concession policy for the enterprises' social insurance premiums, resulting in the corresponding decrease in the payment of social insurance premiums.

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

Exposure to Foreign Exchange Risks

The Group adopts a strict and prudent policy in managing exchange rate risks. Export revenue and import procurement of the Group are settled in US dollars, and a portion of bank deposits are denominated in US dollars. For the six months ended 30 June 2020, approximately 33.5% of the Group's revenue and approximately 23.7% of the costs of the procurement of cotton were denominated in US dollars. For the six months ended 30 June 2020, the Group recorded the exchange gain of approximately RMB12 million due to the depreciation of Renminbi. During the Period, the Group did not experience any significant difficulties or impacts on the operations or liquidity as a result of the fluctuations in currency exchange rates. The Directors believe that the Group will have sufficient foreign currency to meet its demands.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the six months ended 30 June 2020, the Company did not have any material acquisition or disposal of subsidiaries, associates or joint ventures.

Significant Investments Held

During the six months ended 30 June 2020, the Group did not hold any significant investment which had significant impact on the Group's overall operation.

Future Plans for Material Investments or Capital Assets

During the six months ended 30 June 2020 and as of the date of this interim report, there was no future plan approved by the Group for any material investments or capital assets.

Management Discussion and Analysis

Pledged Assets

Details of pledged assets of the Group are set out in Note 18 to the unaudited interim condensed consolidated financial statements.

Capital Commitments

Details of capital commitments of the Group are set out in Note 20 to the unaudited interim condensed consolidated financial statements.

Contingent Liabilities

As at 30 June 2020, the Group did not have any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2020, and up to the date of this interim report, no important event affecting the Group has occurred.

OUTLOOK

Looking forward to the second half of 2020, the textile industry in China will continue to face a complex and challenging development environment at home and abroad with notably increasing risks. As the global economy experienced sluggish growth, the demands from international market are expected to remain sluggish in the second half of the year and there can hardly be any real ground for optimism about the export outlook of the textile industry. Nevertheless, China is striving to mitigate the adverse impact of external environment by implementing the national policies of “six stabilities (六穩)” and “six priorities (六保)” to further accelerate the recovery of economic cycle, which will create more favorable domestic consumption conditions to support the textile industry.

Amidst the outbreak of the Pandemic, the global production and market landscape is undergoing profound adjustments, which will certainly lead to industrial upgrading. The Group will make active response to the government policy and step up efforts to promote industrial upgrading and innovation, so as to achieve high-quality growth. On the sales front, the Group will keep a close watch on developments in the domestic and international arena and the industry, adhere to its strategy of placing equal emphasis on domestic sales and overseas sales, and make timely adjustment to its operation and sales strategies. On the production front, the Group will continue to enhance its automatic and intelligent production and focus on technology innovation, with an aim to strengthen the Group’s competitiveness. On the product front, by conforming to market demands, and giving full play to its advantages from the integration of industry, university, research and application, the Group will focus on the research and development of functional fabrics and functional apparel, push forward the optimization and upgrading of product portfolio and improve the profitability of the Group.

Supplementary Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, so far as known to the Directors, supervisors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the “SFO”) or recorded in the register required to be kept by the Company under section 336 of the SFO:

Interests in the domestic shares of the Company:

Name of shareholders	Number of domestic shares <i>(Note 1)</i>	Approximate percentage of total issued domestic share capital as at 30 June 2020 <i>(%)</i>	Approximate percentage of total issued share capital as at 30 June 2020 <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited (the “Holding Company”)	757,869,600 (Long position)	97.07	63.45
Shandong Weiqiao Investment Holdings Company Limited (“Weiqiao Investment”)	757,869,600 (Long position) <i>(Note 2)</i>	97.07	63.45

Supplementary Information

Interests in the H shares of the Company:

Name of shareholders	Type of interest	Number of H shares (Note 3)	Approximate	Approximate
			percentage of total issued H share capital as at 30 June 2020 (%)	percentage of total issued share capital as at 30 June 2020 (%)
Brandes Investment Partners, L.P.	Investment manager	49,524,500 (Long position) (Note 4)	11.97	4.15
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 5)	9.93	3.44

Note 1: Unlisted shares.

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

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

Note 4: According to the disclosure of interests published on the website of the Stock Exchange by Brandes Investment Partners, L.P., these 49,524,500 H shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 5: According to the disclosure of interests published on the website of the Stock Exchange by Mellon Financial Corporation, these 41,073,100 H shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Save as disclosed above, so far as known to the Directors, supervisors and chief executive of the Company, as at 30 June 2020, there was no any other person (other than the Directors, supervisors or chief executive of the Company) who had any 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 pursuant to the provision of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company under section 336 of the SFO.

Supplementary Information

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 30 June 2020, the interests and short positions of the Directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept by the Company under section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Interests in the domestic shares of the Company:

	Type of interest	Number of domestic shares (Note 1)	Approximate percentage of total issued domestic share capital as at 30 June 2020 (%)	Approximate percentage of total issued share capital as at 30 June 2020 (%)
Ms. Zhang Hongxia (Executive Director/Chairman)	Beneficial interest	17,700,400	2.27	1.48

Note 1: Unlisted shares

Supplementary Information

Interests in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO):

	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital as at 30 June 2020 (%)
Ms. Zhang Hongxia (Executive Director/Chairman)	Holding Company	Beneficial interest and spouse interest (Note 1)	9.73 (Note 1)
Ms. Zhang Yanhong (Executive Director/Vice Chairman)	Holding Company	Beneficial interest	5.63
Ms. Zhao Suwen (Executive Director)	Holding Company	Beneficial interest	0.38
Ms. Zhao Suhua (Non-executive Director)	Holding Company	Spouse interest (Note 2)	4.93 (Note 2)

Note 1: Ms. Zhang Hongxia holds an aggregate of 9.73% equity interests of the Holding Company, of which 7.00% are directly held by Ms. Zhang Hongxia. The remaining 2.73% equity interests are held by her husband, Mr. Yang Congsen, while Ms. Zhang Hongxia is deemed to be interested in these equity interests under the SFO.

Note 2: Ms. Zhao Suhua is deemed to be interested in the 4.93% equity interests of the Holding Company held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at 30 June 2020, there was no any other Directors, supervisors or chief executive of the Company who had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register required to be kept by the Company under section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

INTERIM DIVIDEND

The Board did not recommend any payment of the interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Supplementary Information

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the purposes of reviewing and supervising the Group's financial reporting process and internal controls. The Audit Committee is comprised of three independent non-executive Directors. An Audit Committee meeting was convened on 14 August 2020 to review the interim results and unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020 and give opinions and recommendations to the Board. The Audit Committee also engaged an external auditor to review the interim results and unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2020.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The objective of this committee is to set out and make suggestions on the appraisal standards for Directors and senior management, and study and review the remuneration policies and arrangements for Directors and senior management. The remuneration committee is comprised of three Directors. A remuneration committee meeting was convened on 13 March 2020, at which the resolution with regard to Directors' payroll and bonus as well as supervisors' remuneration for the year of 2020 was passed.

NOMINATION COMMITTEE

The Company has established a nomination committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The objective of this committee is to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive officer.

Supplementary Information

CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

Ms. Zhang Hongxia, the chairman and an executive Director, was appointed as the vice president of Binzhou Entrepreneurs Association on 15 January 2020.

Mr. Chen Shuwen, an independent non-executive Director, has served as an independent director of Yingkou Port Liability Co., Ltd. (營口港務股份有限公司) (which is listed on the Shanghai Stock Exchange, stock code: 600317) since February 2020, has ceased to be an independent director of Dalian Dafu Enterprises Holdings Co., Ltd. (大連大福控股股份有限公司) (which was listed on the Shanghai Stock Exchange and delisted in December 2019, stock code: 600747) since March 2020 and has ceased to be a professor and a tutor for doctorate students at the Faculty of Humanities and Social Sciences of Dalian University of Technology (大連理工大學人文與社會科學學部) since March 2020.

Save as disclosed above, during the six months ended 30 June 2020 and up to the date of this interim report, there was no any change in the Directors, supervisors or chief executive of the Company, and the Company is not aware of any other change in the information of the Directors, supervisors or chief executive of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE CODE

The Company has applied the principles as set out in the CG Code, and has complied with the code provisions as set out in the CG Code for the six months ended 30 June 2020.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding directors' and supervisors' securities transactions on terms no less exacting than the required standards as set out in the Model Code. Having made specific enquiry of all the Directors and supervisors of the Company, the Company confirmed that for the six months ended 30 June 2020, each of the Directors and supervisors of the Company have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' and supervisors' securities transactions.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this interim report will be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.wqfz.com>). An interim report for the six months ended 30 June 2020 containing all the applicable information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and published on the websites of the Stock Exchange and the Company on or before 20 September 2020.

Report on Review of Interim Condensed Consolidated Financial Information



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE BOARD OF DIRECTORS OF WEIQIAO TEXTILE COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Weiqiao Textile Company Limited (the “Company”) and its subsidiaries set out on pages 25 to 48 which comprise the condensed consolidated statement of financial position as at 30 June 2020, and the related condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-months period then ended, and other explanatory notes.

The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Report on Review of Interim Condensed Consolidated Financial Information *(Continued)*

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

14 August 2020

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	5,430,121	7,783,952
Cost of sales		<u>(5,019,735)</u>	<u>(7,175,797)</u>
Gross profit		410,386	608,155
Other income	5	128,791	73,122
Selling and distribution expenses		(63,124)	(68,391)
Administrative expenses		(131,764)	(134,236)
Other expenses		(9,004)	(10,887)
Finance costs	6	(56,919)	(75,006)
Share of profit of an associate		<u>224</u>	<u>656</u>
Profit before taxation		278,590	393,413
Income tax expenses	7	<u>(124,542)</u>	<u>(188,085)</u>
Profit and total comprehensive income for the period	8	<u>154,048</u>	<u>205,328</u>
Attributable to:			
Owners of the Company		154,918	206,330
Non-controlling interests		<u>(870)</u>	<u>(1,002)</u>
		<u>154,048</u>	<u>205,328</u>
Earnings per share attributable to owners of the Company			
Basic and diluted (RMB)	10	<u>0.13</u>	<u>0.17</u>

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	<i>Notes</i>	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	11	9,981,477	10,418,785
Right-of-use assets	12	393,255	405,332
Investment properties		20,416	20,784
Other intangible assets		68	76
Interest in an associate		76,200	75,976
Deposits paid for acquisition of property, plant and equipment		–	16,458
Deferred tax assets		92,150	96,952
Total non-current assets		10,563,566	11,034,363
Current assets			
Inventories	13	2,902,657	2,765,713
Trade receivables	14	290,141	402,190
Deposits, prepayments and other receivables	15	236,326	239,828
Pledged deposits		75,718	107,782
Bank balances and cash		9,991,410	9,875,342
		13,496,252	13,390,855
Non-current assets classified as held for sale		–	1,271
Total current assets		13,496,252	13,392,126
Current liabilities			
Trade payables	16	1,063,656	1,371,593
Other payables and accruals	17	1,007,190	1,069,470
Lease liabilities	12	13,283	13,336
Contract liabilities		161,727	171,565
Income tax payable		1,040,617	1,039,214
Bank borrowings	18	2,059,000	2,109,350
Deferred income		16,569	15,609
Total current liabilities		5,362,042	5,790,137
Net current assets		8,134,210	7,601,989
Total assets less current liabilities		18,697,776	18,636,352

Interim Condensed Consolidated Statement of Financial Position *(Continued)*

As at 30 June 2020

		As at 30 June 2020	As at 31 December 2019
	<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Equity			
Share capital	19	1,194,389	1,194,389
Reserves		<u>17,299,034</u>	<u>17,220,557</u>
Equity attributable to owners of the Company		18,493,423	18,414,946
Non-controlling interests		<u>10,918</u>	<u>11,788</u>
Total equity		<u>18,504,341</u>	<u>18,426,734</u>
Non-current liabilities			
Lease liabilities	12	54,631	61,259
Deferred income		133,885	143,129
Deferred tax liabilities		<u>4,919</u>	<u>5,230</u>
Total non-current liabilities		<u>193,435</u>	<u>209,618</u>
Total equity and non-current liabilities		<u>18,697,776</u>	<u>18,636,352</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve	Retained profits	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 31 December 2019 (Audited)	1,194,389	6,692,394	1,845,222	8,682,941	18,414,946	11,788	18,426,734	
Profit and total comprehensive income for the period	-	-	-	154,918	154,918	(870)	154,048	
Final 2019 dividend declared	-	-	-	(76,441)	(76,441)	-	(76,441)	
At 30 June 2020 (Unaudited)	<u>1,194,389</u>	<u>6,692,394</u>	<u>1,845,222</u>	<u>8,761,418</u>	<u>18,493,423</u>	<u>10,918</u>	<u>18,504,341</u>	
At 31 December 2018 (Audited)	1,194,389	6,692,394	1,845,222	8,662,394	18,394,399	14,451	18,408,850	
Profit and total comprehensive income for the period	-	-	-	206,330	206,330	(1,002)	205,328	
Final 2018 dividend declared	-	-	-	(197,791)	(197,791)	-	(197,791)	
At 30 June 2019 (Unaudited)	<u>1,194,389</u>	<u>6,692,394</u>	<u>1,845,222</u>	<u>8,670,933</u>	<u>18,402,938</u>	<u>13,449</u>	<u>18,416,387</u>	

Note: As required by applicable law and regulations, entities established and operated in the People's Republic of China (the "PRC") shall set aside/appropriate a portion of its after tax profits of each year to fund statutory surplus reserve. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory surplus reserve must be maintained at a minimum of 25% of the registered capital after such usage.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	For the six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	214,549	793,304
INVESTING ACTIVITIES		
Decrease (increase) in pledged deposits	32,064	(263,327)
Proceeds from disposal of property, plant and equipment	21,892	8,577
Bank interest income received	15,667	17,049
Proceeds from disposal of non-current assets held for sale	7,240	3,526
Prepayment for acquisition of property, plant and equipment	–	(8,558)
Purchase of property, plant and equipment	(4,683)	(30,660)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	72,180	(273,393)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(897,350)	(1,031,350)
Dividend paid	(76,441)	(197,791)
Interest paid	(57,800)	(46,272)
Payment of lease liabilities	(6,681)	(8,479)
Government grant received	20,611	600
New bank borrowings raised	847,000	1,121,350
NET CASH USED IN FINANCING ACTIVITIES	(170,661)	(161,942)
NET INCREASE IN CASH AND CASH EQUIVALENTS	116,068	357,969
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	9,875,342	9,596,558
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY BANK BALANCES AND CASH	9,991,410	9,954,527

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Weiqiao Textile Company Limited (the “Company”) is a limited company established in the PRC. The registered office of the Company is located at No. 34, Qidong Road, Weiqiao Town, Zouping Country, Shandong Province, the PRC. The immediate holding company and the ultimate holding company of the Group are 山東魏橋創業集團有限公司 Shandong Weiqiao Chuangye Group Company Limited* (the “Holding Company”) and 山東魏橋投資控股有限公司 Shandong Weiqiao Investment Holdings Company Limited* (“Weiqiao Investment”) respectively, both of which are limited liability companies established in the PRC.

The Group was principally engaged in the manufacture and sale of cotton yarn, grey fabric and denim and generation and sale of electricity and steam.

The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company. RMB is the currency of the primary economic environment in which the principal subsidiaries of the Company operates (the functional currency of the principal subsidiaries).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019 except as described below.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

In the current interim period, the Group has applied, for the first time, the following new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 7, HKFRS 9 and HKAS 39	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The application of the new and amendments to HKFRSs in the current interim period has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

Revenue represents revenue arising from sales of cotton yarn, grey fabric, denim and electricity and steam. An analysis of the Group’s revenue for the period is as follows:

	For the six months ended 30 June	
	2020	2019
	RMB’000	RMB’000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
– Sales of textile products		
• Cotton yarn	1,395,248	1,970,116
• Grey fabric	1,991,173	2,637,452
• Denim	206,834	410,936
– Sales of electricity and steam	<u>1,836,866</u>	<u>2,765,448</u>
	<u>5,430,121</u>	<u>7,783,952</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

4. SEGMENT INFORMATION

Information reported to the directors of the Company, being the chief operating decision maker (“CODM”), for the purpose of resource allocation and assessment of segment performance focuses on types of services provided.

Specifically, the Group’s reportable segments are as follows:

- The textile products segment produces and sells cotton yarn, grey fabric and denim; and
- The electricity and steam segment generates electricity and steam for internal use in the production of textile products and sale to external customers.

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

4. SEGMENT INFORMATION *(continued)*

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the six months ended 30 June 2020

	Textile products <i>RMB'000</i> (Unaudited)	Electricity and steam <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
External revenue	3,593,255	1,836,866	5,430,121
Inter-segment revenue	—	324,567	324,567
Segment revenue	<u>3,593,255</u>	<u>2,161,433</u>	5,754,688
Eliminations			<u>(324,567)</u>
Group revenue			<u>5,430,121</u>
Segment (loss) profit	<u>(119,899)</u>	<u>431,900</u>	312,001
Unallocated income			128,791
Unallocated corporate expenses			(107,597)
Unallocated finance costs			(54,829)
Share of profit of an associate			<u>224</u>
Profit before taxation			<u>278,590</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

4. SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the six months ended 30 June 2019

	Textile products <i>RMB'000</i> (Unaudited)	Electricity and steam <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
External revenue	5,018,504	2,765,448	7,783,952
Inter-segment revenue	—	366,846	366,846
Segment revenue	<u>5,018,504</u>	<u>3,132,294</u>	8,150,798
Eliminations			<u>(366,846)</u>
Group revenue			<u>7,783,952</u>
Segment (loss) profit	<u>(161,362)</u>	<u>683,360</u>	521,998
Unallocated income			73,122
Unallocated corporate expenses			(127,357)
Unallocated finance costs			(75,006)
Share of profit of an associate			<u>656</u>
Profit before taxation			<u>393,413</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss) profit earned by each segment without allocation of central administration costs, directors' emoluments, other income, certain finance costs and share of profit of an associate. This is the measure reported to the directors of the Company with respect to the resource allocation and performance assessment.

Inter-segment sales are conducted with terms mutually agreed by both contract parties.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

4. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

Segment assets

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Textile products	7,421,382	7,552,953
Electricity and steam	<u>6,235,559</u>	<u>6,506,696</u>
Total segment assets	13,656,941	14,059,649
Interest in an associate	76,200	75,976
Corporate and other assets	<u>10,326,677</u>	<u>10,290,864</u>
Total assets	<u>24,059,818</u>	<u>24,426,489</u>

Segment liabilities

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Textile products	1,458,818	1,641,916
Electricity and steam	<u>672,965</u>	<u>893,460</u>
Total segment liabilities	2,131,783	2,535,376
Corporate and other liabilities	<u>3,423,694</u>	<u>3,464,379</u>
Total liabilities	<u>5,555,477</u>	<u>5,999,755</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

4. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to operating segment, other than other intangible assets, interest in an associate, deferred tax assets, unallocated deposits, prepayments and other receivables, pledged deposits, bank balances and cash and other corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- All liabilities are allocated to operating segments, other than unallocated other payables and accruals, income tax payable, bank borrowings, deferred income, deferred tax liabilities and other corporate liabilities. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

5. OTHER INCOME

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income from bank deposits	15,356	17,049
Release of deferred income	8,284	9,392
Government grants <i>(note)</i>	20,611	600
Compensation from suppliers on the supply of sub-standard goods	8,690	14,103
Gross rental income	599	400
Exchange gain, net	12,133	3,220
Gain on sale of waste and spare parts	55,363	21,581
Gain on disposal of property, plant and equipment	1,684	3,447
Gain on disposal of non-current assets held for sale	5,969	2,679
Reversal of impairment loss on trade and other receivables	39	387
Others	63	264
	128,791	73,122

Note: The government grants are the income received from local government authorities for development scheme and salaries subsidies which were recognised as other income when actually received or amortised during the period as the Group fulfilled the relevant granting criteria.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

6. FINANCE COSTS

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on:		
– bank loans	54,829	46,152
– lease liabilities	2,090	2,379
– corporate bonds	–	26,475
	<u>56,919</u>	<u>75,006</u>

7. INCOME TAX EXPENSES

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax:		
PRC Enterprises Income Tax	120,051	182,611
Deferred tax	4,491	5,474
	<u>124,542</u>	<u>188,085</u>

Notes:

- (a) Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.
- (b) No Hong Kong Profits Tax has been provided as the Group did not have any assessable profits subject to Hong Kong Profits Tax for both periods.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

8. PROFIT FOR THE PERIOD

For the six months ended	
30 June	
2020	2019
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Unaudited)

Profit for the period has been arrived at after charging (crediting) :

Depreciation of property, plant and equipment	438,234	518,162
Depreciation of right-of-use assets	12,077	11,689
Depreciation of investment properties	368	368
Amortisation of other intangible assets	8	8
Loss on written-off of property, plant and equipment	7	–
Reversal of impairment loss on inventories	(4,944)	(528)
Allowance for inventories (included in cost of sales)	94,731	92,399
Amount of inventories recognised as an expense	4,929,948	7,083,398
Research and development cost	<u>43,482</u>	<u>48,547</u>

9. DIVIDEND

The proposed final dividend of RMB76,441,000 for the year ended 31 December 2019 was approved by the shareholders of the Company on 29 May 2020.

No dividend was proposed during the six months ended 30 June 2020, nor has any dividend been proposed since the end of the interim period (six months ended 30 June 2019: nil).

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following:

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<u>154,918</u>	<u>206,330</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000 shares)	<u>1,194,389</u>	<u>1,194,389</u>

Note:

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding for both periods.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group spent approximately RMB21,141,000 (six months ended 30 June 2019: approximately RMB37,017,000) on acquisition of property, plant and equipment.

During the six months ended 30 June 2020, the Group has disposed of certain property, plant and equipment with an aggregate carrying values of approximately RMB20,215,000 (six months ended 30 June 2019: approximately RMB5,130,000) for cash proceeds of approximately RMB21,892,000 (six months ended 30 June 2019: approximately RMB8,577,000), resulting in a gain on disposal of approximately RMB1,684,000 (six months ended 30 June 2019: approximately RMB3,447,000).

During the six months ended 30 June 2020, the Group has written off certain property, plant and equipment and resulted in loss on written off of property, plant and equipment of approximately RMB7,000 (2019: nil) for the period.

Non-current assets classified as held for sale

As at 31 December 2019, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2019 and fulfilled in 2020.

During the six months ended 30 June 2020, the non-current assets held for sales were sold for cash proceeds of approximately RMB7,240,000 (six months ended 30 June 2019: RMB3,526,000), resulting a gain on disposal of approximately RMB5,969,000 (six months ended 30 June 2019: RMB2,679,000).

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Right-of-use assets

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Land	388,367	399,533
Buildings	<u>4,888</u>	<u>5,799</u>
	<u>393,255</u>	<u>405,332</u>

Right-of-use assets of RMB388,367,000 (2019: RMB399,533,000) represents land use rights located in the PRC.

The Group has lease arrangements for buildings and premises. The lease terms are generally ranged from 1 to 20 years.

(ii) Lease liabilities

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Non-current	54,631	61,259
Current	<u>13,283</u>	<u>13,336</u>
	<u>67,914</u>	<u>74,595</u>
Amounts payable under lease liabilities		
Within one year	13,283	13,336
After one year but within two years	13,438	13,430
After two years but within five years	30,672	33,257
After five years	<u>10,521</u>	<u>14,572</u>
	67,914	74,595
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(13,283)</u>	<u>(13,336)</u>
Amount due for settlement after 12 months	<u>54,631</u>	<u>61,259</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

12. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES *(continued)*

(iii) Amount recognised in profit or loss

	For the six months ended	
	30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	12,077	11,689
Interest expense on lease liabilities	<u>2,090</u>	<u>2,379</u>

13. INVENTORIES

As at 30 June 2020, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB134,726,000 (31 December 2019: RMB143,175,000).

During the six months ended 30 June 2020, an allowance for inventories of approximately RMB94,731,000 (2019: RMB92,399,000) has been recognised and included in cost of sales.

During the six months ended 30 June 2020, there was a decrease in allowance of approximately RMB98,236,000 (31 December 2019: RMB112,153,000) for inventories due to elimination of allowances upon the subsequent sales of inventories during the current period.

During the six months ended 30 June 2020, there was an increase in the net realised value of semi-finished goods and finished goods due to market condition. As a result, a reversal of write-down of semi-finished goods and finished goods of approximately RMB4,944,000 (31 December 2019: RMB528,000) has been recognised and included in cost of sales in the current period.

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

14. TRADE RECEIVABLES

Included in trade receivables are debtors (net of loss allowance) with the following ageing analysis presented based on invoice date, which approximates the respective revenue recognition dates:

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 90 days	287,542	401,604
91 to 180 days	2,296	250
181 to 365 days	3	333
Over 365 days	<u>300</u>	<u>3</u>
Total	<u>290,141</u>	<u>402,190</u>

The Group allows an average credit period of 45 days to its trade customers.

The Group recognised lifetime ECL for trade receivables based on the ageing of customers collectively that are not individually significant as follows:

	Gross carrying amount <i>RMB'000</i> (Unaudited)	Loss allowance <i>RMB'000</i> (Unaudited)	Net carrying amount <i>RMB'000</i> (Unaudited)
As at 30 June 2020			
Within 90 days	287,887	(345)	287,542
91 to 180 days	2,337	(41)	2,296
181 to 365 days	4	(1)	3
Over 365 days	<u>4,443</u>	<u>(4,143)</u>	<u>300</u>
	<u>294,671</u>	<u>(4,530)</u>	<u>290,141</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

14. TRADE RECEIVABLES *(continued)*

	Gross carrying amount <i>RMB'000</i> (Audited)	Loss allowance <i>RMB'000</i> (Audited)	Net carrying amount <i>RMB'000</i> (Audited)
As at 31 December 2019			
Within 90 days	402,087	(483)	401,604
91 to 180 days	254	(4)	250
181 to 365 days	339	(6)	333
Over 365 days	<u>4,121</u>	<u>(4,118)</u>	<u>3</u>
	<u>406,801</u>	<u>(4,611)</u>	<u>402,190</u>

The movement in the loss allowance for trade receivables is set out below:

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
At the beginning of the period/year	4,611	5,199
Reversal of loss allowance recognised in profit or loss during the period/year	<u>(81)</u>	<u>(588)</u>
At the end of the period/year	<u>4,530</u>	<u>4,611</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

15. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Prepayments to suppliers	68,995	45,574
Other taxes recoverable	165,432	187,123
Interest receivables	483	794
Other receivables	<u>1,749</u>	<u>6,628</u>
	236,659	240,119
Less: loss allowance of other receivables	<u>(333)</u>	<u>(291)</u>
	<u>236,326</u>	<u>239,828</u>

The movement in the loss allowance for other receivables is set out below:

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Audited)
At the beginning of the period/year	291	366
Loss allowance (reversal of loss allowance) recognised in profit or loss during the period/year	<u>42</u>	<u>(75)</u>
At the end of the period/year	<u>333</u>	<u>291</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

16. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on invoice date at the end of the reporting period.

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 90 days	926,607	1,263,939
91 to 180 days	24,278	32,317
181 to 365 days	54,462	23,989
Over 365 days	<u>58,309</u>	<u>51,348</u>
Total	<u>1,063,656</u>	<u>1,371,593</u>

The average credit period granted is 30 to 60 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

17. OTHER PAYABLES AND ACCRUALS

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Payroll payable	274,718	380,109
Accrued staff benefits	449,612	414,432
Other taxes payable	165,921	148,182
Interest payable	2,783	3,664
Other payables	<u>114,156</u>	<u>123,083</u>
	<u>1,007,190</u>	<u>1,069,470</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

18. BANK BORROWINGS

Set out below is the information relating to the Group's interest-bearing bank and other borrowings as at 30 June 2020:

- a) As at 30 June 2020 and 31 December 2019, all Group's bank loans are denominated in RMB.
- b) As at 30 June 2020, certain of the Group's bank loans amounting to approximately RMB355,000,000 (31 December 2019: approximately RMB206,480,000) were secured by certain of the Group's buildings, machinery and equipment and right-of-use assets of an aggregate carrying value of approximately RMB176,240,000 and RMB56,142,000 respectively (31 December 2019: approximately RMB182,348,000 and RMB56,955,000 respectively).

19. SHARE CAPITAL

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	780,770	780,770
413,619,000 H shares of RMB1.00 each	<u>413,619</u>	<u>413,619</u>
	<u>1,194,389</u>	<u>1,194,389</u>

20. CAPITAL COMMITMENTS

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the condensed consolidated financial statements	<u>12,434</u>	<u>17,184</u>

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

21. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in the condensed consolidated financial statements, during the period, the Group entered into transactions with related parties as follows:

Related parties	Nature of transaction	For the six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
The Holding Company	Sales of electricity	759,779	1,255,880
	Payment of lease liabilities and interest	8,663	8,534
	Purchases of water	5,006	10,923
Fellow subsidiaries	Sales of textile products	134,225	198,859
	Gross rental income	584	367
濱州市宏諾新材料有限公司 Binzhou City Hongnuo New Material Co., Limited* and its subsidiary	Purchases of steam	5,212	8,208
鄒平縣宏利熱電有限公司 Zouping County Hongli Thermal Power Co., Ltd*	Purchases of steam	1,771	1,835

(b) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 21(a), the Group entered into sales agreements with certain fellow subsidiaries for sale commitments which are expected to be fulfilled before the end of 2020.

* For identification purpose only

Notes to the Interim Condensed Consolidated Financial Statements *(Continued)*

For the six months ended 30 June 2020

21. RELATED PARTY TRANSACTIONS *(continued)*

(c) Compensation to key management personnel

The remuneration of directors of the Company and other members of key management during the period was as follow:

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term benefits	2,469	2,556
Post-employment benefits	49	77
	<u>2,518</u>	<u>2,633</u>