魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

2020

ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL DATA

Results

	For the year ended 31 December (RMB'000)				
	2016	2017	2018	2019	**2020**
Revenue	14,175,446	16,373,385	16,455,884	15,167,562	**12,743,437**
Gross profit	2,251,359	1,770,198	1,719,619	960,914	**962,155**
Gross profit margin (%)	15.9	10.8	10.5	6.3	**7.6**
Profit before taxation	1,514,657	944,855	1,024,364	542,349	**466,644**
Net profit attributable to the owners of the Company	992,706	522,249	643,906	218,338	**204,833**
Net profit margin (%)	7.0	3.2	3.9	1.4	**1.6**
Basic earnings per share (RMB)	0.83	0.44	0.54	0.18	**0.17**

Assets and liabilities

	As at 31 December (RMB'000)				
	2016	2017	2018	2019	**2020**
Total assets	31,832,301	28,512,475	24,952,770	24,426,489	**24,462,216**
Equity	17,780,738	17,959,111	18,408,850	18,426,734	**18,552,521**
Total liabilities	14,051,563	10,553,364	6,543,920	5,999,755	**5,909,695**
Return on equity (1) (%)	5.6	2.9	3.5	1.2	**1.1**
Current ratio (times)	2.7	1.7	2.1	2.3	**2.5**
Accounts receivable turnover (days)	9	9	9	10	**11**
Inventory turnover (days)	113	72	72	76	**79**
Accounts payable turnover (days)	28	24	27	33	**38**

Notes: (1) Calculated based on average equity.

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

SENIOR MANAGEMENT

Mr. Wei Jiakun *(General Manager)*

COMPANY SECRETARY

Mr. Zhang Jinglei

AUDIT COMMITTEE

Mr. Chan Wing Yau, George *(Chairman of the Audit Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

REMUNERATION COMMITTEE

Mr. Liu Yanzhao *(Chairman of the Remuneration Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

NOMINATION COMMITTEE

Ms. Zhang Hongxia *(Chairman of the Nomination Committee)*
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

COMPANY WEBSITE

www.wqfz.com

STOCK CODE

2698

SHAREHOLDERS' REFERENCE

LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

LISTING DATE

24 September 2003

NUMBER OF ISSUED SHARES AS AT 31 DECEMBER 2020

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

INVESTOR RELATIONS

Ms. Xu Hang
Tel: (852) 2815 1090
Email: rebecca@wqfz.com

IR & PR CONSULTANT

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

FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

Annual Results Announcement Date
19 March 2021

DATE OF ANNUAL GENERAL MEETING

28 May 2021

DISTRIBUTION DATE OF FINAL DIVIDEND

29 June 2021

CHAIRMAN’S STATEMENT

It is my pleasure to present on behalf of the board (the “Board”) of directors (the “Directors”) of Weiqiao Textile Company Limited (“Weiqiao Textile” or the “Company”) the audited consolidated results of the Company together with its subsidiaries (collectively, the “Group”) for the year ended 31 December 2020 (the “Year” or “Year under Review”).

In 2020, the rampant spread of the novel coronavirus pandemic (the “Pandemic”) in a global scale created severe challenges to all economies around the world, causing changes in many aspects such as global supply chains, trade practices and industrial layouts. According to the Global Economic Prospects Report issued by the Organization for Economic Cooperation and Development (OECD), it is expected that the gross domestic product (GDP) of all economics worldwide declined by approximately 4.2% in 2020, and the global economic activities were subject to negative impact in different degrees.

Amidst the negative impact brought by the Pandemic, the PRC government took proactive measures and became the first country to bring the Pandemic under control, realise resumption of work and operation and achieve economic growth. In 2020, China’s GDP growth rate stood at about 2.3%, making China the only economy to register positive growth around the world and the main driver for global economic recovery.

In terms of the industry, under the prevailing uncertain international trade environment, orders have been affected due to the ongoing Sino-US trade friction. In addition, due to the weakened market demands for textile products as a result of the outbreak of the Pandemic and delay in the resumption of work and production by the downstream enterprises, the textile enterprises were confronted with an overall challenging operation environment.

Under such macro environment, the business and operation of the Group were also affected. During the Year under Review, the Group, on the one hand, took proactive measures for pandemic prevention and control, and, on the other hand, made vigorous efforts to achieve resumption of work and operation. The Group recorded revenue of approximately RMB12,743 million, representing a decrease of approximately 16.0% as compared with that of 2019. Gross profit amounted to approximately RMB962 million, which was basically in line with that of last year. Net profit attributable to owners of the Company was approximately RMB205 million, representing a decrease of approximately 6.0% as compared with that of 2019. Basic earnings per share were approximately RMB0.17 (2019: approximately RMB0.18). The Board recommended a payment of final dividend for the year 2020 of RMB0.061 per share (inclusive of tax) (2019: RMB0.064 (inclusive of tax)).

During the Year, faced with the severe challenges under the new environment, the Group implemented a series of measures, in an effort to improve its core competitiveness and promote high-quality development of the Group.

In terms of products and research and development, the Group continued to adhere to the innovation strategy and focused on the development of new functional products, gradually increasing the proportion of middle-to-high-end products. On the production and operation front, the Group continued to adhere to the management innovation strategy, and enhanced the intelligent and digital operation of its equipment by implementing technology improvement on the equipment, so as to improve production efficiency. During the Year, the Company's "Key Technology of Data-based Intelligent Yarn Production Plant and its Industrial Application (基於數據流的智能紡紗工廠關鍵技術與產業化)" project whose overall technology has reached international leading level has passed expert appraisal, and was granted the 9th National Textile Enterprise Management Innovation Award (第九屆全國紡織企業管理創新獎), the 6th Enterprise Management Innovation Achievement Award of Shandong Province (第六屆山東省企業管理創新成果獎) and the 1st Prize of the 2020 Shandong Textile and Apparel Industry Association Science Technology Award (二零二零年度「山東省紡織服裝行業協會科學技術獎」一等獎). On the sales front, by conforming to market demands, the Group made great effort to adapt to the more complex and changing market environment, thereby retaining its shares in the domestic and international markets. Weiqiao Textile has also continuously gained global recognition and the resource tilt of head customers. During the Year, the Company successfully passed the formal review of an internationally renowned fashion chain, and became its A-level supplier of all brands.

Despite the complexity in external operating environment, the Group's extensive sales channel network, continuously optimized of product portfolio and intelligent equipment are essential for the Group to maintain stable operation and seize opportunities to increase its market shares.

Looking forward to 2021, the Group believes that with the development of the PRC economy, a robust domestic market will become the core engine for continuous recovery of the textile industry in China. Although the Group remains fully confident in the future development of the textile industry, the textile industry will continue to face opportunities and challenges due to the uncertainties surrounding the development of the global economy as the Pandemic has yet to run its full course.

CHAIRMAN'S STATEMENT

Based on its existing green and intelligent textile production lines, the Group will further push forward its digital and intelligent transformation to increase labor efficiency per capita. 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 initiatives, improve innovation capabilities, increase investment in the research and development of functional fabrics and promote optimization and upgrading of its product portfolio. 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. Under the current operating environment where the global economy remains subject to some uncertainties, 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
19 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

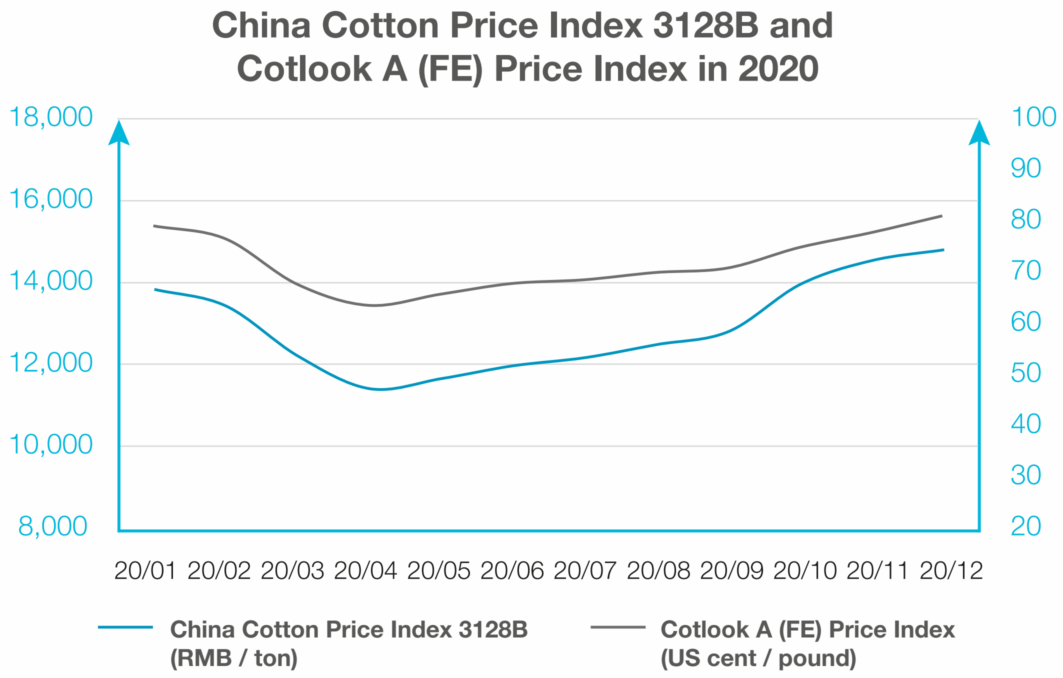
INDUSTRY REVIEW

During the Year under Review, amidst the negative impact brought by the Pandemic, the global economy fell into a deep recession. The industry was faced with great pressure amid sluggish market demands for textile products.

During the Year, due to negative impact on the EU and US economies brought by the Pandemic and delay in the resumption of work and production by the enterprises, the industry witnessed weakened demands for textile products and apparel and persistently low level of orders from these countries. According to the statistics from the General Administration of Customs of the PRC, the aggregated exports of cotton textile products and apparel from the PRC was approximately US$59.8 billion in 2020, representing a year-on-year decrease of approximately 22.2%.

In terms of domestic textile market, due to the impact of the Pandemic, market demand was sluggish in the first half of the Year and gradually recovered in the second half of the Year, but the overall production and operation of the industry remained under pressure. According to the statistics from the National Bureau of Statistics of the PRC, the retail sales of commodities such as apparel, footwear, headwear, knitwear and textile products by enterprises above a designated size amounted to approximately RMB1,236.46 billion during the Year, representing a year-on-year decrease of approximately 6.6%.

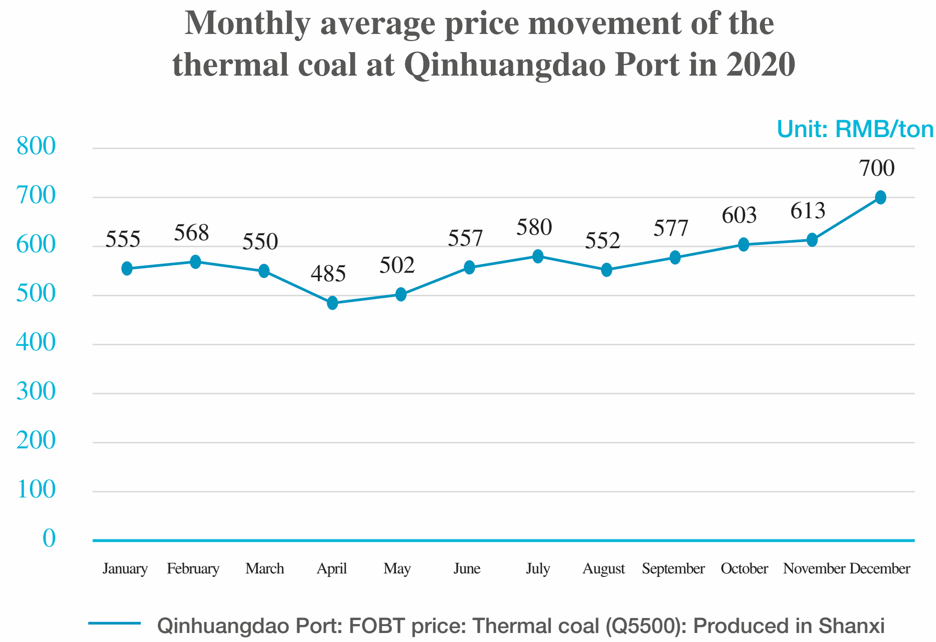
In terms of textile raw materials, the trend in domestic cotton prices in the PRC was substantially in line with the trend in overseas cotton prices as both the domestic and overseas cotton prices have continued to rise since May 2020. The China Cotton Price Index 3128B for December 2020 recorded approximately RMB14,795 per ton in average, representing an increase of approximately RMB3,399 per ton as compared with the lowest point for April 2020. The Cotlook A (FE) Price Index for December 2020 was US81.02 cents per pound in average, representing an increase of US17.49 cents per pound as compared with the lowest point for April 2020. The movement of China Cotton Price Index 3128B and Cotlook A (FE) Price Index during 2020 was as follows:



Data source: www.tteb.com

In terms of the raw materials for electricity, the coal price in the PRC showed a trend of suppression followed by a rise in 2020. In the first half of the Year, the coal price remained at a low level after experiencing a sharp drop caused by a decline in industrial electricity consumption due to the impact of the Pandemic. In the second half of the Year, the nation-wide electricity consumption registered a rapid increase due to the resumption of work and production in all industries after the Pandemic had been brought under control, and the coal price also kept rising.

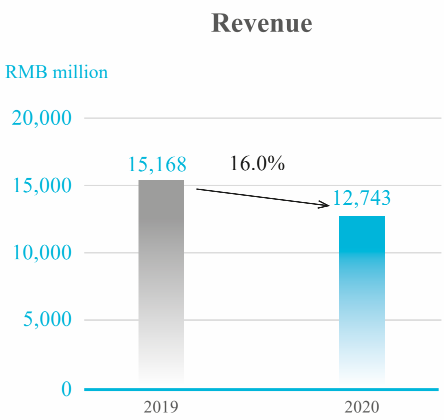
MANAGEMENT DISCUSSION AND ANALYSIS

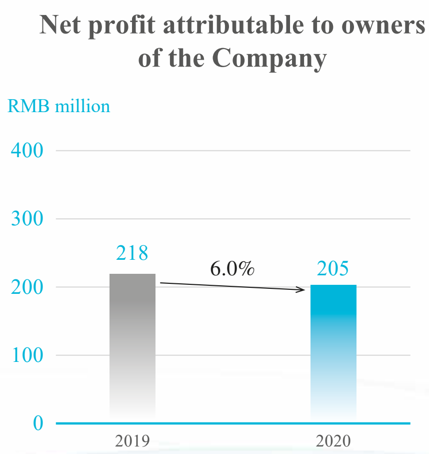


Data source: Beijing Antaike Information Co., Ltd.

BUSINESS REVIEW

For the years ended 31 December 2020 and 2019, the revenue of the Group and net profit attributable to owners of the Company were as follows:





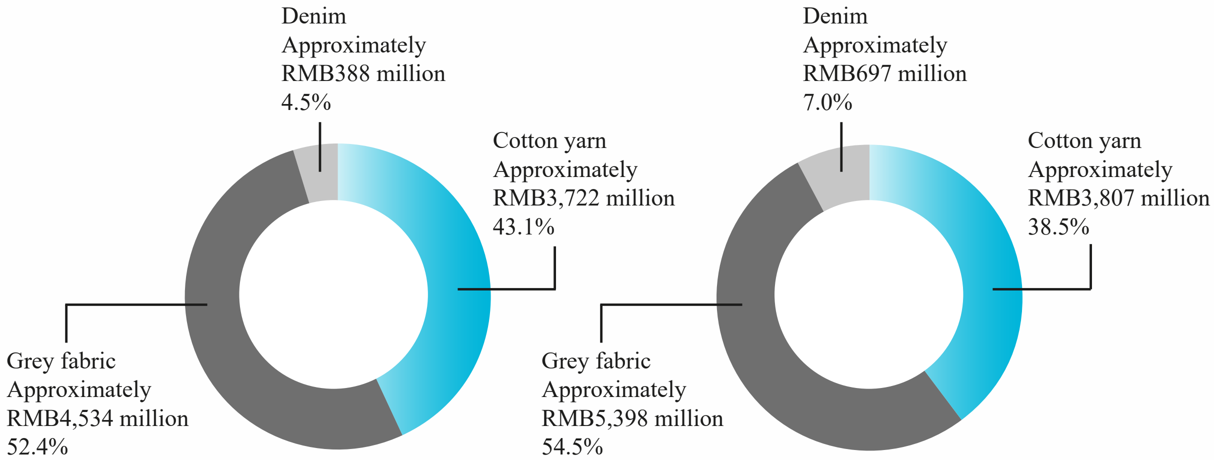
For the year ended 31 December 2020, the Group recorded revenue of approximately RMB12,743 million, representing a decrease of approximately 16.0% as compared with that for the corresponding period of last year, where the revenue of textile products was approximately RMB8,644 million, representing a decrease of approximately 12.7% over the corresponding period of last year, which was mainly due to the sluggish demand for textile products and declining product prices as a result of the continued weak domestic and overseas textile markets due to the negative impact of the Pandemic and delay in the resumption of work and production by the downstream enterprises, resulting in a decrease in the revenue of the three main textile products of the Group.

The revenue of electricity and steam was approximately RMB4,099 million, representing a decrease of approximately 22.2% over that for the corresponding period of last year, which was due to a decrease in the sales volume of electricity of the Group as a result of the declining demand for electricity from the downstream customers as adversely affected by the Pandemic during the Year.

The net profit attributable to owners of the Company was approximately RMB205 million, representing a decrease of approximately 6.0% as compared with that of approximately RMB218 million as recorded for the corresponding period of last year, which was mainly due to a decrease in the sales volume of electricity, resulting in a corresponding decline in the profit of the electricity business.

Textile Business

The charts below are the comparison of the breakdown of revenue of the Group's textile business categorized by products for the years ended 31 December 2020 and 2019, respectively:



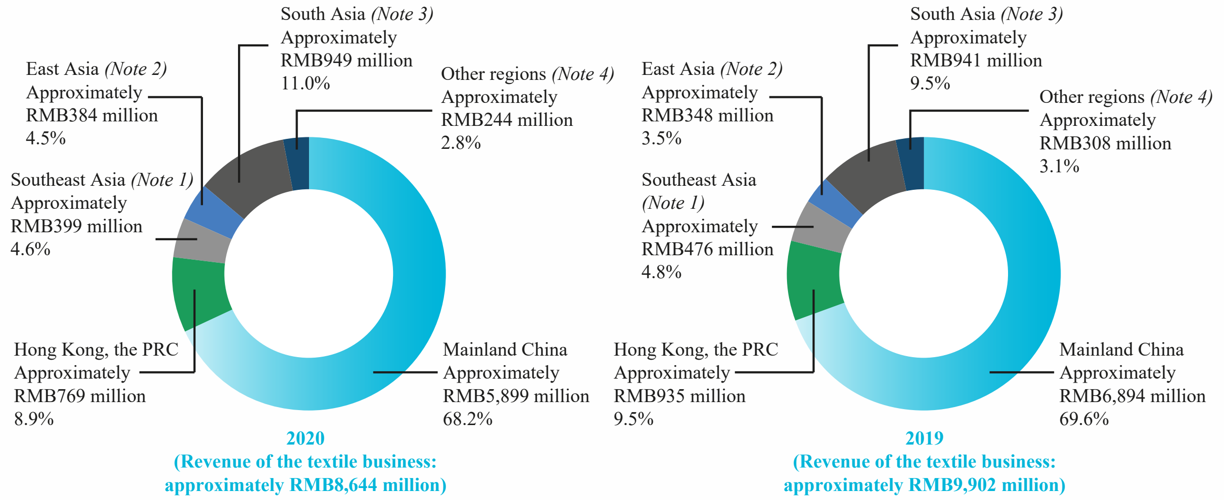
2020
(Revenue of the textile business: approximately RMB8,644 million)

2019
(Revenue of the textile business: approximately RMB9,902 million)

For the year ended 31 December 2020, each of the revenue of the Group's cotton yarn, grey fabric and denim recorded a decrease as compared with the corresponding period of last year, which was mainly due to the delay in the resumption of work and production by the downstream enterprises as a result of the negative impact of the Pandemic, resulting in a decrease in market demands for textile products. The sales volume of the Group's grey fabric and denim recorded a decrease on a year-on-year basis while the selling price remained fairly stable as compared with the corresponding period of last year, resulting in the corresponding decrease in the revenue of grey fabric and denim. The revenue from the sales of cotton yarn recorded a decrease, which was mainly due to the reason that although the Group proactively adjusted the product portfolio based on market demand and reduced part of the inventory, resulting in an increase in the sales volume of cotton yarn, the revenue of cotton yarn recorded a decrease due to a decline in the selling price of cotton yarn as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are the comparison of the breakdown of revenue of the Group's textile products categorized by geographical location for the years ended 31 December 2020 and 2019, respectively:



Note 1: Southeast Asia mainly includes Vietnam, Thailand, Malaysia, Indonesia, the Philippines and Burma;
Note 2: East Asia includes Japan and South Korea;
Note 3: South Asia includes Pakistan, Bangladesh and India; and
Note 4: Other regions mainly include the US, Europe, Africa and Taiwan, China.

For the year ended 31 December 2020, the Group continued to implement a sales strategy of placing equal emphasis on domestic sales and overseas sales, generating revenue from the overseas sales and domestic sales of approximately 31.8% and approximately 68.2% of the Group's revenue of textile products, respectively. The proportion of overseas and domestic sales remained substantially unchanged from that for the corresponding period of last year.

During the Year under Review, the Group adjusted the production plans timely based on market demand. The output of the Group's cotton yarn was approximately 371,000 tons, representing a decrease of approximately 7.9% as compared with that for the corresponding period of last year; the output of grey fabric was approximately 726 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 50 million meters, representing a decrease of approximately 19.4% 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 overall production and operation of the Group remained steady and all facilities were functioning in good conditions during the Year under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

Electricity and Steam Business

As at 31 December 2020, the installed capacity of the Group's thermal power assets amounted to 2,760 MW, which was in line with the corresponding period of last year. In 2020, the power generation of the Group was approximately 13,448 million kWh, representing a decrease of approximately 20.8% as compared with the corresponding period of last year; while its electricity sales volume amounted to approximately 11,225 million kWh, representing a decrease of approximately 22.5% over the corresponding period of last year, which was mainly attributable to the decrease in demand for electricity from downstream customers during the Year due to the negative impact of the Pandemic, resulting in the corresponding decrease in the sales volume of electricity.

For the year ended 31 December 2020, the revenue of the Group's sales of electricity and steam amounted to approximately RMB4,099 million, representing a decrease of approximately 22.2% as compared with the corresponding period of last year. The gross profit thereof was approximately RMB963 million, representing a decrease of approximately 26.1% as compared to the corresponding period of last year. The decrease in revenue and gross profit of electricity and steam 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 Year due to the negative impact of the Pandemic, resulting in the decrease in the sales volume of electricity and the corresponding decrease in revenue and gross profit of electricity and steam.

The Group fully achieved ultra-low emission by installing flue gas dedusting facilities and desulphurization and denitrification facilities for all of the Group's power generating units.

FINANCIAL REVIEW

Revenue, Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to the major products for the years ended 31 December 2020 and 2019, respectively:

	For the year ended 31 December					
	2020			2019		
Product categories	**Revenue**	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	**%**	*RMB'000*	*RMB'000*	*%*
Cotton yarn	**3,721,815**	**125,991**	**3.4**	3,807,210	(10,006)	(0.3)
Grey fabric	**4,534,249**	**(173,219)**	**(3.8)**	5,397,236	(367,873)	(6.8)
Denim	**388,633**	**46,406**	**11.9**	697,255	35,480	5.1
Electricity and steam	**4,098,740**	**962,977**	**23.5**	5,265,861	1,303,313	24.8
Total	**12,743,437**	**962,155**	**7.6**	15,167,562	960,914	6.3

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2020, the gross profit of the sales of textile products of the Group increased by approximately 99.7% over the corresponding period of last year to approximately RMB-1 million. With the increase in gross profit, the gross profit margin recorded an increase of approximately 3.5 percentage points over the corresponding period of last year, which was mainly due to the reasons that (i) the cost of cotton (as a main raw material) declined dramatically, and (ii) the Group has been entitled to the temporary reduction or exemption of employer contribution to the social security schemes introduced by the Chinese government in response to the Pandemic, leading to a decrease in labour costs. The gross profit from the sales of electricity and steam of the Group decreased by approximately 26.1% from the corresponding period of last year to approximately RMB963 million, and the gross profit margin was approximately 23.5%, down by approximately 1.3 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 Year, resulting in an increase in the unit fixed costs over the corresponding period of last year.

Selling and Distribution Expenses

For the year ended 31 December 2020, the Group's selling and distribution expenses were approximately RMB151 million, representing an increase of approximately 3.4% from approximately RMB146 million for the same period of last year. Among these expenses, transportation costs increased by approximately 3.6% from approximately RMB84 million for the same period of last year to approximately RMB87 million, which was mainly attributable to the increase in the domestic sales volume of cotton yarn during the Year. The salary of the sales staff increased by approximately 9.1% from approximately RMB33 million for the corresponding period of last year to approximately RMB36 million, mainly due to the adjustments to the salesmen's commission policy by the Group according to the changes in the textile product market during the Year. Sales commission was approximately RMB13 million, representing a decrease of approximately 7.1% from approximately RMB14 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.

Administrative Expenses

For the year ended 31 December 2020, the administrative expenses of the Group were approximately RMB278 million, representing little change as compared to approximately RMB280 million as recorded for last year.

Finance Costs

For the year ended 31 December 2020, the finance costs of the Group were approximately RMB115 million, representing a decrease of approximately 21.2% from approximately RMB146 million for the corresponding period of last year, which was mainly attributable to the year-on-year decrease in the total weighted debts of the Group during the Year.

Taxation

For the year ended 31 December 2020, the income tax expense of the Group decreased from approximately RMB327 million in 2019 to approximately RMB264 million, representing a decrease of approximately 19.3%, which was mainly attributable to the decrease in the Group's profit before tax for the Year.

During the Year, the Company received the national high and new technology enterprise accreditation and was entitled to the preferential income tax rate of 15% from 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

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

For the year ended 31 December 2020, the net profit attributable to owners of the Company was approximately RMB205 million, representing a decrease of approximately 6.0% from approximately RMB218 million for the last year.

For the year ended 31 December 2020, the earnings per share of the Company were approximately RMB0.17, representing a decrease of approximately 5.6% from approximately RMB0.18 for the last year.

Liquidity and Financial Resources

The working capital of the Group is mainly financed with the cash inflow from operating activities. For the year ended 31 December 2020, the Group recorded a net cash inflow from operating activities of approximately RMB1,428 million, a net cash outflow for investing activities of approximately RMB13 million, and a net cash outflow for financing activities of approximately RMB32 million.

As at 31 December 2020, the cash and cash equivalents of the Group were approximately RMB11,258 million, representing an increase of approximately 14.0% as compared with that of approximately RMB9,875 million as at 31 December 2019, which was mainly attributable to the net cash inflow generated from operating activities of the Group.

For the year ended 31 December 2020, the average turnover days of the Group's receivables were 11 days, which was basically in line with that of the last year.

For the year ended 31 December 2020, the inventory turnover days of the Group were 79 days, representing an increase of 3 days as compared to 76 days of last year, which was mainly due to the decrease in the sales volume of textile products as a result of the sluggish demand in domestic and overseas markets as adversely affected by the Pandemic during the Year.

For the year ended 31 December 2020, the Group did not use derivative financial instruments (2019: Nil).

Capital Structure

The major objective of the Group's capital management is to ensure ongoing operations capacity and maintain a satisfactory capital ratio in order to support its own business operation and maximize shareholders' interests.

As at 31 December 2020, the debts of the Group were mainly bank borrowings amounting to approximately RMB2,257 million (2019: approximately RMB2,109 million). As at 31 December 2020, the Group's gearing ratio (calculated based on net debt (after deducting the interest-bearing bank borrowings of cash and cash equivalents) divided by total equity) was approximately -48.5% (2019: approximately -42.1%).

The Group manages its interest expenses through a fixed rate and floating rate debt portfolio. As at 31 December 2020, approximately 80.1% of the Group's bank borrowings were subject to fixed interest rates, while the remaining of approximately 19.9% were subject to floating interest rates.

In the future, the Group will also further strengthen the fund management and optimize the debt structure, further reducing the level of liabilities while maintaining the Group's sustainable operation capacity and sufficient liquidity.

As at 31 December 2020, the Group's borrowings were denominated in Renminbi; 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 13.3% of the total amount.

Pledged Assets

Details of pledged assets of the Group are set out in Note 35 to the consolidated financial statements.

Capital Commitment

The details of the Group's capital commitment are set out in Note 34 to the consolidated financial statements.

Employees and Remuneration Policies

As at 31 December 2020, the Group had a total of approximately 44,000 employees, representing a decrease of approximately 6,000 employees as compared with that of last year. This decrease in the number of employees was mainly due to the normal employee turnover during the Year. Total staff costs of the Group for the Year amounted to approximately RMB2,888 million, representing a decrease of approximately 8.3% from approximately RMB3,151 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 Year, resulting in the corresponding reduction of staff salaries paid, and on the other hand the Group has been entitled to the temporary reduction or exemption of employer contribution to the social security schemes introduced by the Chinese government in response to the Pandemic, resulting in the corresponding decrease in the payment of contribution to the social security schemes for employees.

The remuneration of the Group's employees is determined based on their performance, experience and the prevailing industry practice. The remuneration policies and packages of the Group will be periodically reviewed by the management. 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 staff based on the technical requirements of different posts.

MANAGEMENT DISCUSSION AND ANALYSIS

Exposure to Foreign Exchange Risks

The Group adopts a strict and prudent policy in managing the 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 year ended 31 December 2020, approximately 31.8% of the Group's revenue and approximately 16.5% of the purchase costs of cotton were denominated in US dollars. The Group recorded an exchange loss of approximately RMB69 million for the year ended 31 December 2020 due to the appreciation of Renminbi during the Year. During the Year, the Group did not experience any significant difficulties or impacts on its operations or liquidity as a result of fluctuations in currency exchange rates. The Directors believe that the Group has sufficient foreign currency to meet its demands.

Contingent Liabilities

As at 31 December 2020 and 2019, the Group did not have any significant contingent liabilities.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2020, the Company did not have any material acquisition or disposal of subsidiaries, associates or joint ventures (2019: Nil).

Significant Investments Held

The Group did not hold any significant investment which had significant impact on the Group's overall operation during the year ended 31 December 2020 (2019: Nil).

Future Plans for Material Investments or Capital Assets

During the year ended 31 December 2020 and as of the date of this annual report, there was no future plan approved by the Group for any material investments or capital assets (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

KEY RISKS AND UNCERTAINTIES

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

The potential risks relating to the Group's business increase with the growth of its business. In order to identify, assess and control these risks which may jeopardize the Group's success, the Group has implemented the risk management system covering each major aspect of the business operation, including financial security, production and legal compliance. Given that the Group has established risk management as a system project, each department of the Group is responsible for identifying and assessing the risks involved in its respective operation. The audit committee of the Company is responsible for supervising and evaluating the risk management policies implemented by the Group and monitoring the performance of such risk management system.

ENVIRONMENTAL POLICIES

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

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

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was incorporated in the PRC and majority of its business operation is located in China, while the Company itself is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The operation of the Group is subject to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the other relevant laws and regulations in the PRC and Hong Kong. During the year ended 31 December 2020 and up to the date of this annual report, the Group has, in all material respects, complied with all the relevant laws and regulations in the PRC and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

RELATIONSHIP WITH KEY STAKEHOLDERS

(i) Employees

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

(ii) Suppliers

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

(iii) Customers

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

OUTLOOK

Looking forward to 2021, due to the policy support announced by several major economies and the rollout of mass vaccination program, the global economy is expected to recover. After the outbreak of the Pandemic, the global production and market landscape is undergoing profound adjustments, which will certainly lead to industrial upgrading. Under such macro environment, the Group remains cautiously optimistic about the development environment at home and abroad faced by the Chinese textile industry in 2021. The Group will make active response to the government policy and step up efforts to promote industrial upgrading and innovation, with an aim to achieve high-quality growth.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2020 and up to the date of this annual report, no important event affecting the Group has occurred.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Zhang Hongxia, aged 49, is the chairman and an executive Director of the Company. She graduated from Shandong Cadre Correspondence University (山東幹部函授大學) and obtained a professional diploma in financial accounting. She is a qualified political administrator (政工員). She obtained a master degree in business administration for senior management from Dalian University of Technology (大連理工大學) on 7 July 2006. She joined the Company in 1999, and is responsible for the overall strategic planning of the Group. She was re-elected as an executive Director at the Company's annual general meeting held on 28 May 2018. She had over 26 years of management experience in the cotton textile industry. She previously worked in Zouping County Weiqiao Cotton Spinning Factory (鄒平縣位橋棉紡織廠) ("Weiqiao Cotton Spinning Factory") as the deputy head and head of the technical division as well as the director of the production technical department. She had also served as the deputy general manager and the general manager of Shandong Weiqiao Chuangye Group Company Limited (山東魏橋創業集團有限公司) (the "Holding Company"), a controlling shareholder of the Company, the director of Binzhou Weiqiao Property Company Limited (濱州魏橋置業有限公司), the chairman of Shandong Weilian Printing and Dyeing Company Limited (山東魏聯印染有限公司) ("Weilian Print"), the director and the general manager of Shandong Huibin Cotton Spinning and Dyeing Company Limited (山東慧濱棉紡漂染有限公司), the director and the general manager of Shandong Weiqiao Mianye Company Limited (山東魏橋棉業有限公司) (from 30 September 2003 to 25 December 2012), the executive director of Weihai Weiqiao Technology Industrial Park Company Limited (威海魏橋科技工業園有限公司) ("Weihai Industrial Park"), the executive director of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) ("Weihai Weiqiao"), the chairman and the general manager of Shandong Luteng Textile Company Limited (山東魯藤紡織有限公司) (from 12 September 2002 to 1 March 2019), and the chairman and general manager of Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (from 13 September 2002 to 1 March 2019). She is currently a director of the Holding Company (from 14 April 1998), a director of Binzhou Weiqiao Technology Industrial Park Company Limited (濱州魏橋科技工業園有限公司) ("Binzhou Industrial Park") (from 26 November 2001) and the chairman and an executive director of Weiqiao Textile (Hong Kong) Trading Company Limited (魏橋紡織(香港)貿易有限公司) (from 12 October 2011). She is the vice chairman of the 11th and 12th session of The Hong Kong General Chamber of Textiles, the vice president of the 6th session of the China Chamber of Commerce for Import & Export of Textiles and Apparel, the invited vice chairman of China National Textile and Apparel Council, the vice president of China Cotton Textile Association, the vice president of China Cotton Association, the chairman of Binzhou Textile Association, the vice president of Shandong Association of Women Entrepreneurs, the president of Binzhou Association of Women Entrepreneurs, the vice president of Binzhou Entrepreneurs Association and the president of the fifth council of Shandong Textile and Apparel Association. Ms. Zhang Yanhong is her younger sister.

Ms. Zhang Yanhong, aged 45, is the vice chairman and an executive Director of the Company. She graduated from Shandong University (山東大學) and obtained a professional diploma in computer and its application. She further obtained a professional diploma in computer application from Renmin University of China in 1996, a senior diploma in Innovative Management MIA from senior research class of Tsinghua University in 2006 and a master degree in business administration for senior management from Dalian University of Technology in July 2006. She was re-elected as an executive Director at the Company's annual general meeting held on 28 May 2018. She had over 20 years of management experience in the cotton textile industry. She once acted as an executive director and the general manager of Weihai Industrial Park, an executive director and the general manager of Weihai Weiqiao. She has also been a director of Weihai Weiqiao since 15 June 2017. She has been a director of Weihai Industrial Park from 12 June 2017, a director of the Holding Company since October 2012 and the vice chairman of the Company from 24 January 2019. Ms. Zhang Hongxia is her elder sister.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Zhao Suwen, aged 46, is an executive Director and the chief financial officer of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a professional diploma in business administration. She is a qualified economist. Ms. Zhao obtained the chief financial officer (CFO) advanced study graduation certificate from School of Continuing Education, Tsinghua University (清華大學) on 11 October 2008. She joined the Company in 1999, and is responsible for the supervision of the Group's finance and accounting affairs. She was re-elected as an executive Director at the Company's annual general meeting held on 28 May 2018. She had over 27 years of experience in the cotton textile industry. She previously worked at Weiqiao Cotton Spinning Factory as an accountant for about 5 years and served as the manager of the financial department of the Company. She is currently also a director of the Holding Company (from October 2012). Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Mr. Zhang Jinglei, aged 44, is an executive Director and the company secretary of the Company. He graduated from Xi'an Engineering College (西安工程學院) and obtained a junior college diploma majoring in proximate analysis in July 1997. He joined the Company (including its predecessor) in October 1997. He worked in the sales department of the Company from September 1998 to September 2000, and has successively worked in the securities office, production technology section and the securities department since October 2000. He has engaged in corporate governance of the Company for years and participated in relevant trainings provided by domestic and overseas securities regulatory authorities. He was re-elected as an executive Director at the Company's annual general meeting held on 28 May 2018. He is currently also a non-executive director of China Hongqiao Group Limited (中國宏橋集團有限公司) ("China Hongqiao") (which is listed on the Stock Exchange, stock code: 1378.HK) and a director of the Holding Company.

NON-EXECUTIVE DIRECTOR

Ms. Zhao Suhua, aged 51, graduated from Adult Education College of Qingdao University (青島大學成人教育學院), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She was re-elected as a non-executive Director at the Company's annual general meeting held on 28 May 2018. She had over 23 years of management experience in the cotton textile industry. She had been the head of the production technical division and head of the production technical department of the Company (from May 2000 to February 2006), and the standing deputy general manager of the sales department (from February 2006 to May 2008). Ms. Zhao Suhua is the elder sister of Ms. Zhao Suwen.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Yau, George, aged 66, graduated from Waterloo University in Canada and obtained a bachelor degree in mathematics. Mr. Chan served as the executive director of China Golden Development Holdings Limited (中國金展控股有限公司), and served as the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), the director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), the executive director of HSBC Asset Management Ltd. (滙豐投資管理有限公司), a member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), a member of the Consumers Litigation Fund Executive Committee (消費者訴訟基金執行委員會), president of the Rotary Club of Tsim Sha Tsui East (國際扶輪社香港尖沙咀東), the director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), a board member of Hong Kong Ocean Park (香港海洋公園董事局), the chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會), the director, general manager and chief investment officer of Dao Heng Fund Management Co., Ltd. (道亨基金管理有限公司), the chairman of China Sub-Committee of the Hong Kong Investment Funds Association (香港投資基金公會中國事務委員會), a member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), a member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會), a convener of Sir Robert Black Trust Fund Investment Committee (柏立基爵士信託基金投資委員會), a member of Police Children's Education Trust (警察子女教育信託基金) and Police Education and Welfare Trust (警察教育及福利信託基金) and the chairman of Capital Focus Asset Management Limited (匯駿資產管理有限公司). He is currently the chief executive officer of Capital Focus Asset Management Limited (匯駿資產管理有限公司), the managing director of Shun Loong Securities Co., Ltd. (順隆證券行有限公司), and the independent non-executive director of Infinity Development Holdings Company Limited (星謙發展控股有限公司) (which is listed on the Stock Exchange, stock code: 640.HK). He was appointed as an independent non-executive Director at the Company's extraordinary general meeting held on 12 February 2003. He was re-elected as an independent non-executive Director at the Company's annual general meeting held on 28 May 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Chen Shuwen, aged 66, graduated from Dongbei University of Finance and Economics (東北財經大學) with a bachelor degree in Economics in 1982 and obtained a master degree and a PhD in Economics from Jilin University (吉林大學) in 1988 and 1996, respectively. Mr. Chen has taught for ten years in Jilin University (from January 1982 to February 1992). Mr. Chen has substantial management and leadership experience serving in the PRC government. Mr. Chen commenced his career as the Deputy County Chief of the Benxi Manchu Autonomous County, Liaoning Province, the PRC, in March 1992 and was the deputy director of the Benxi City Commission for Restructuring the Economic Systems (本溪市經濟體制改革委員會) (from September 1995 to January 1998). He was the director general of the Benxi City Foreign Trade & Economic Cooperation Committee (本溪市對外經濟貿易合作委員會) (from February 1998 to February 2001). Mr. Chen was the professor and the tutor for doctorate students at the Faculty of Management and Economics of Dalian University of Technology (大連理工大學管理學院) (from December 2003 to September 2010), the dean at the Department of Public Administration and Law of Dalian University of Technology (大連理工大學公共管理與法學學院) (from October 2010 to January 2015) as well as the professor and the 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) (from October 2010 to March 2020). Mr. Chen was the independent directors of Dalian Huarui Heavy Industry Group Co., Ltd. (大連華鋭重工集團股份有限公司) (which is listed on the Shenzhen Stock Exchange, stock code: 002204) (from December 2012 to February 2015), 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) (from October 2006 to April 2013 and from February 2020 to November 2020) and Dalian Dafu Enterprises Holdings Co., Ltd. (大連大福控股股份有限公司) (formerly known as Dalian Daxian Enterprises Holdings Co., Ltd. (大連大顯控股股份有限公司) (which was listed on the Shanghai Stock Exchange and delisted in December 2019, stock code: 600747)) (from September 2007 to September 2013 and from July 2015 to March 2020). Mr. Chen was a practising solicitor at Liaoning Tianhe Law Firm (遼寧天合律師事務所) (from March 2003 to March 2019) and an independent director of Zhangzidao Group Co., Ltd. (獐子島集團股份有限公司) (which is listed on the Shenzhen Stock Exchange, stock code: 002069) (from May 2013 to May 2019). Mr. Chen is currently an independent non-executive director of Sinofortune Financial Holdings Limited (華億金控集團有限公司) (which is listed on the Stock Exchange, stock code: 8123.HK) (since September 2011). He was appointed as an independent non-executive Director at the annual general meeting of the Company held on 27 May 2014. He was re-elected as an independent non-executive Director at the Company's annual general meeting held on 4 October 2017.

Mr. Liu Yanzhao, aged 47, graduated from Shandong Economics College (山東經濟學院), currently known as Shandong University of Finance and Economics (山東財經大學), and obtained a bachelor's degree in economics in July 1996. He has almost 25 years of experience in accounting. He served as the director of capital verification department of Shandong Binzhou Audit Firm (山東濱州審計事務所) from July 1996 to October 1999. From October 1999 to January 2005, he served as the director of audit department of Shandong Huanghe Limited Liability Accounting Firm (山東黃河有限責任會計師事務所) and he has been the deputy head and deputy director accountant of Shandong Huanghe Limited Liability Accounting Firm (山東黃河有限責任會計師事務所) since January 2005. Mr. Liu was accredited as a Chinese certified public accountant by Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2000, a Chinese certified public valuer by China Appraisal Society (中國資產評估協會) in 2001, a Chinese certified tax agent by Shandong Certified Tax Agent Management Center (山東省註冊税務師管理中心) in 2003 and a senior accountant by Shandong Senior Evaluation Committee of Qualification in Account (山東省會計專業資格高級評審委員會) in 2012. He was awarded the "Outstanding Inspection Individual in Asset Appraisal Industry (資產評估行業檢查先進個人)" by Ministry of Finance and China Appraisal Society (中國資產評估協會) in 2004 and the "Outstanding Certified Public Accountant in Shandong

Province (山東省優秀註冊會計師)" by Shandong Institute of Certified Public Accountants (山東省註冊會計師協會) in 2012. He was appointed as an independent non-executive Director at the Company's annual general meeting held on 28 May 2018.

SUPERVISORS

Ms. Wang Xiaoyun, aged 56, graduated from Adult Education College of Qingdao University (青島大學成人教育學院), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She had over 26 years of management experience in the cotton textile industry. She had successively served as a quality control officer, the workshop supervisor, the deputy factory head and the factory head of the Company, the deputy general manager of the production district of Zouwei Garden I (鄒魏一園生產區) (from January 2004 to February 2006), the non-executive director of the Company (from 30 May 2008 to 29 May 2012) and the head of the production technical department of the Company (from February 2006 to June 2020). She was appointed as an employee representative supervisor of the Company at the Company's employee representatives' meeting held on 28 May 2015. She was re-elected as an employee representative supervisor of the Company at the Company's employee representatives' meeting held on 28 May 2018.

Ms. Fan Xuelian, aged 50, graduated from Binzhou Area Supply and Marketing Staff Secondary School (濱州地區供銷職工中專學校) in December 1994 in Binzhou, Shandong, the PRC, majoring in corporate management. She served as a yarn worker at Binzhou First Cotton Textile Plant (濱州第一棉紡織廠) from September 1988 to June 1989, and at Weiqiao Cotton Spinning Factory successively as a responsible person for doffing, an operating manager and the deputy factory head from June 1989 to April 1998. She also successively served as a deputy head and head in the sub-branch factory of the Company (including its predecessor) from April 1998 to August 2014, and as the head of the publicity department of the Holding Company from August 2014 to March 2021. She has served at the Holding Company as the chairwoman of the labor union, the head of the party committee office, and a committee member of the C.P.C. since August 2014, and as the supervisor of the Holding Company since November 2012. She was appointed as a shareholder representative supervisor of the Company at the extraordinary general meeting of the Company held on 1 March 2018.

Ms. Bu Xiaoxia, aged 48, graduated from Shandong University (山東大學) in July 1994 in Jinan, Shandong, the PRC, majoring in corporate management. She served at the production technology division of Weiqiao Cotton Spinning Factory as an operation inspector from September 1994 to April 1998. She also served successively as an operation inspector, a section head, a deputy division head and a division head of the production technology division of the Company (including its predecessor) from April 1998 to May 2009. She has served as a deputy general manager of Zouping No. 3 Industrial Park (鄒平第三工業園) of the Company since May 2009. She was appointed as a shareholder representative supervisor of the Company at the extraordinary general meeting of the Company held on 1 March 2018.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wei Jiakun, aged 53, was appointed as the general manager of the Company on 18 November 2014. Mr. Wei is responsible for managing the Group's production, operation and marketing and formulating the Group's business strategies. He joined the Company's predecessor, Weiqiao Cotton Spinning Factory (位橋棉紡廠) in 1986 and had over 31 years of experience in cotton textile industry. Mr. Wei had served as the workshop supervisor and the director in the spinning mill of Weiqiao Cotton Spinning Factory (位橋棉紡廠) from September 1990 to October 2001, the general manager of Weihai Weiqiao from November 2001 to September 2002, the deputy general manager of Weiqiao Industrial Park of the Company from October 2002 to January 2005, the general manager of Zouping No.2 Industrial Park of the Company from February 2005 to April 2009 and the general manager of Binzhou Industrial Park from May 2009 to November 2014. Currently, he also serves as a director of the Holding Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim as well as electricity and steam business. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2020.

Particulars of the Company's subsidiaries are set out in Note 40 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended 31 December 2020 and the consolidated financial position of the Group as at 31 December 2020 are set out in the audited consolidated financial statements on pages 78 to 80 in this annual report.

The Directors recommended the payment of a final dividend of RMB0.061 (inclusive of tax) per share (the "2020 Final Dividend") to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 11 June 2021 (Friday), and the dividend will be paid on 29 June 2021. The 2020 Final Dividend is subject to the approval at the coming annual general meeting of the Company. In accordance with the Company Law of the PRC and the articles of association of the Company, "when the accumulated amount of the statutory surplus reserve reaches over 50% of the company's registered capital, no further appropriation needs to be made". Since the aggregated statutory surplus reserve appropriated by the Company has exceeded the standard required by the law or the articles of association of the Company, as approved by the Board, no statutory surplus reserve was appropriated out of net profit after tax recorded for 2020.

Under the relevant tax rules and regulations of the PRC (the "PRC Tax Law"), the Company is required to withhold enterprise income tax at the rate of 10% when distributing final dividends to non-resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the register of members of H Shares of the Company.

In accordance with the PRC Tax Law, the Company is also required to withhold individual income tax when distributing final dividends to individual shareholders whose names appear on the register of members of H Shares of the Company. The Company will determine the country of domicile of the individual H shareholders based on the registered addresses as recorded in the register of members of H Shares of the Company on the record date with details as follows:

For individual H shareholders who are Hong Kong and Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them.

For individual H shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of less than 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of them. If such individual H shareholders would like to apply for a refund of the additional amount of tax withheld and paid, the Company may make applications on their behalf to seek entitlement to the relevant agreed preferential treatments pursuant to the tax treaties.

For individual H shareholders whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of higher than 10% but lower than 20%, the Company would withhold and pay the individual income tax at the agreed-upon effective tax rate on behalf of them.

For individual H shareholders who are residents of those countries without any tax treaties with the PRC or having tax treaties with the PRC stipulating a dividend tax rate of 20% or more and other situations, the Company would withhold and pay the individual income tax at a tax rate of 20% on behalf of them.

Should H shareholders have any doubt about the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax implications in Mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

The Company will strictly comply with the laws and the requirements of relevant government departments, and will withhold and pay the enterprise income tax on behalf of its shareholders whose names appear on the register of members of H shares of the Company on the record date. The Company will take no responsibility and will reject any requests from shareholders whose identity cannot be confirmed within the specified time or cannot be confirmed at all or any disputes arising from the arrangement of withholding tax or paying tax. However, the Company may provide assistance to the extent of its ability as appropriate.

For the distribution of dividends, dividends for holders of domestic shares will be distributed and paid in RMB, while dividends for H shares will be declared in RMB but paid in Hong Kong dollars ("HK$") (conversion of RMB into HK$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK$ announced by the People's Bank of China within five working days prior to and including 28 May 2021 (Friday)).

During the Year, there was no arrangement under which any shareholder of the Company has waived or agreed to waive any dividend.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 28 April 2021 (Wednesday) to 28 May 2021 (Friday) (both dates inclusive), during which no transfer of shares will be registered. Shareholders of the Company whose names appear on the register of members of the Company on 28 April 2021 (Wednesday) are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 27 April 2021 (Tuesday).

REPORT OF THE DIRECTORS

The Company's register of members will be closed from 7 June 2021 (Monday) to 11 June 2021 (Friday) (both dates inclusive), during which no transfer of shares will be registered. Shareholders of the Company whose names appear on the register of members of the Company on 11 June 2021 (Friday) are entitled to the 2020 Final Dividend. In order to qualify for the 2020 Final Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 4 June 2021 (Friday).

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which the Company may declare and distribute dividends to the shareholders of the Company to allow the shareholders to share the Company's profits and the Company to retain adequate reserves for future growth.

In accordance with the Articles of Association of the Company (the "Articles of Association"), the Board is responsible for establishment of the profit distribution plan of the Company, including the final dividend distribution plan, and the declaration of final dividends will be subject to the approval at the general meeting. The Board may decide on the plan for distributing interim or special dividends of the Company as authorized by the general meeting. The amount of dividends is subject to the discretion of the Board, and will depend upon the Company's profitability, financial conditions, cash requirements and availability and other relevant factors. The Company's ability to pay dividends is also subject to the requirements of the Listing Rules and relevant applicable laws and regulations in the PRC and Hong Kong and the Articles of Association.

In accordance with Company Law of the PRC, the Company may only distribute dividends out of its distributable annual earnings (i.e., the Company's after tax profits after offsetting (i) the accumulated losses brought down from the previous years, if any, and (ii) the allocations to the statutory common reserve, the statutory public welfare fund and, if any, the discretionary common reserve (in such order of priorities) before payment of any dividend on shares). According to the Articles of Association, for the purposes of determining the distributable profit, the after tax profits of the Company are the lesser of its after tax profits determined in accordance with (i) PRC accounting standard and regulations; and (ii) international accounting standard or the accounting standard of the place where the shares are listed overseas.

The Company's current policy is to distribute approximately 35% of the distributable annual profit of the Company as dividends to the shareholders every year. Such dividend policies may be amended where: (i) the cash available to the Company is in an amount lower than the above-mentioned amount; (ii) there is a negative impact on the cash flow of the Group as the investments made by the Company approved by the Directors are not fully covered by appropriate financing; and (iii) the comprehensive financial position, available financial resources and business prospects of the Company. The past dividend distribution by the Company shall not be used as a reference or basis to determine the amount of dividends to be declared in the future.

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Group for the years ended 31 December 2016, 2017 and 2018, and from the audited consolidated financial statements of the Group for the year ended 31 December 2019 and the year ended 31 December 2020 on pages 78 to 80 of this annual report is set out below:

Results

	For the year ended 31 December				
	2016	2017	2018	2019	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	14,175,446	16,373,385	16,455,884	15,167,562	**12,743,437**
Cost of sales	(11,924,087)	(14,603,187)	(14,736,265)	(14,206,648)	**(11,781,282)**
Gross profit	2,251,359	1,770,198	1,719,619	960,914	**962,155**
Other income	340,408	167,036	164,981	172,943	**221,409**
Selling and distribution expenses	(165,379)	(159,160)	(166,246)	(146,061)	**(150,903)**
Administrative expenses	(319,224)	(257,185)	(277,490)	(279,758)	**(277,751)**
Other expenses	(12,740)	(55,574)	(40,143)	(21,084)	**(171,494)**
Finance costs	(581,415)	(523,073)	(376,475)	(145,850)	**(114,769)**
Share of profit of an associate	1,648	2,613	118	1,245	**(2,003)**
Profit before taxation	1,514,657	944,855	1,024,364	542,349	**466,644**
Income tax expenses	(526,445)	(423,797)	(381,504)	(326,674)	**(264,416)**
Profit and total comprehensive income for the year	988,212	521,058	642,860	215,675	**202,228**
Profit and total comprehensive income attributable to:					
Owners of the Company	992,706	522,249	643,906	218,338	**204,833**
Non-controlling interests	(4,494)	(1,191)	(1,046)	(2,663)	**(2,605)**
	988,212	521,058	642,860	215,675	**202,228**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2016	2017	2018	2019	**2020**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	31,832,301	28,512,475	24,952,770	24,426,489	**24,462,216**
Total liabilities	14,051,563	10,553,364	6,543,920	5,999,755	**5,909,695**

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2020 are set out in Note 17 to the consolidated financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2020 are set out in Note 29 to the consolidated financial statements.

SHARE CAPITAL, DEBENTURES AND EQUITY-LINKED AGREEMENTS

Details of the Company's share capital as at 31 December 2020 are set out in Note 32 to the consolidated financial statements.

During the year ended 31 December 2020, the Company did not issue any shares or debentures, or enter into any equity-linked agreements, and no equity-linked agreements subsisted at the end of the year. The Company did not have any share option scheme.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the Company Law of the PRC which oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December 2020 and up to the publication date of this annual report was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or supervisors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or supervisors or any of their spouses or children under the age of 18 were granted any right to subscribe for the shares in or debentures of the Company or any other body corporate or had exercised any such right during the Year.

REPORT OF THE DIRECTORS

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 year ended 31 December 2020.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2020 are set out in Note 39 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Company as at 31 December 2020 are set out in Note 39 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, sales to the Group's five largest customers accounted for approximately 33.1% of the Group's total sales for the year ended 31 December 2020, while sales to its largest customer accounted for approximately 15.2% of the Group's total sales for the year ended 31 December 2020.

During the year ended 31 December 2020, purchases from the Group's five largest suppliers accounted for approximately 45.0% of the Group's total purchases for the year ended 31 December 2020, while purchases from the Group's largest supplier accounted for approximately 34.7% of the Group's total purchases for the year ended 31 December 2020.

The Holding Company was one of the five largest customers of the Group during the year ended 31 December 2020. The Group has sold certain products to the Holding Company, its subsidiaries and associates (collectively, the "Parent Group"), details of which are set out in the section headed "Connected Transactions" below.

Save as disclosed above, at no time during the year ended 31 December 2020, did any Director, supervisor, their close associate(s) or any shareholder, which to the knowledge of the Board owns more than 5% of the Company's issued share capital, has an interest in any other five largest customers or suppliers of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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 the Board considers each of the independent non-executive Directors to be independent.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

The Directors' and supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments shall be determined by the Board with reference to their duties, responsibilities and performance. During the year ended 31 December 2020, there was no arrangement under which a Director or a supervisor has waived or agreed to waive any emoluments. Details of emoluments of the Directors, supervisors, chief executive and five highest paid employees are set out in Note 13 to the consolidated financial statements.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year ended 31 December 2020 and up to the date of this annual report, list of the Directors, supervisors and senior management of the Company and their respective term of office are set out below:

Executive Directors:

Ms. Zhang Hongxia	Until the date of annual general meeting for the year of 2020
Ms. Zhang Yanhong	Until the date of annual general meeting for the year of 2020
Ms. Zhao Suwen	Until the date of annual general meeting for the year of 2020
Mr. Zhang Jinglei	Until the date of annual general meeting for the year of 2020

Non-executive Director:

Ms. Zhao Suhua	Until the date of annual general meeting for the year of 2020

Independent non-executive Directors:

Mr. Chan Wing Yau, George	Until the date of annual general meeting for the year of 2020
Mr. Chen Shuwen	Until the date of annual general meeting for the year of 2022
Mr. Liu Yanzhao	Until the date of annual general meeting for the year of 2020

Supervisors:

Ms. Wang Xiaoyun	Until 28 May 2021
Ms. Fan Xuelian	Until the date of annual general meeting for the year of 2020
Ms. Bu Xiaoxia	Until the date of annual general meeting for the year of 2020

Senior management:

Mr. Wei Jiakun *(General manager)*	Until 18 November 2023

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

Each of the executive Directors, supervisors and senior management of the Company has entered into a service contract with the Company for a term of three years. Each of the non-executive Director and independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years. Pursuant to the Articles of Association, each Director, supervisor and senior management is eligible for re-election and consecutive appointment upon expiration of his/her term of office.

The Company has not entered into any service contract with any of the Directors and supervisors which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

CHANGES IN INFORMATION OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

Ms. Zhang Hongxia, the chairman and an executive Director, has served as the vice president of Binzhou Entrepreneurs Association since 15 January 2020 and the president of the fifth council of Shandong Textile and Apparel Association since 28 March 2021.

Mr. Chen Shuwen, an independent non-executive Director, 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) from February 2020 to November 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.

Ms. Wang Xiaoyun, a supervisor of the Company, has ceased to be the head of the production technical department of the Company since June 2020.

Save as disclosed above, during the year ended 31 December 2020 and up to the date of this annual report, there was no change in the Directors, supervisors and 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.

THE BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the Directors, supervisors and senior management are set out on pages 22 to 27 in this report.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' MATERIAL INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions" in this annual report, none of the Directors, supervisors or entities connected with a Director or supervisor is or was materially interested, either directly or indirectly, in any other transaction, arrangement or contract of the Company or any of its subsidiaries subsisting during the year ended 31 December 2020 or at the end of the year that is of significance to the business of the Group.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020 and at any time up to the date of this annual report, so far as was known to the Board, none of the Directors, supervisors and their respective associates had any interest in any business (other than the business of the Group) which competed or was likely to compete, either directly or indirect, with the business of the Group.

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" in this annual report, during the year ended 31 December 2020, there was neither any other contract of significance between the Company or any of its subsidiaries and the controlling shareholder or any of its subsidiaries, nor any other contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, so far as known to 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 or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 Shareholder	Number of domestic shares *(Note 1)*	Approximate percentage of total issued domestic share capital as at 31 December 2020 *(%)*	Approximate percentage of total issued share capital as at 31 December 2020 *(%)*
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) *(Note 2)*	97.07	63.45

Interests in the H shares of the Company:

Name of Shareholder	Type of interest	Number of H shares *(Note 3)*	Approximate percentage of total issued H share capital as at 31 December 2020 *(%)*	Approximate percentage of total issued share capital as at 31 December 2020 *(%)*
Brandes Investment Partners, L.P.	Investment manager	44,313,998 (Long position) *(Note 4)*	10.71	3.71
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 5)*	9.93	3.44
Citigroup Inc.	Interest of a controlled corporation, security interest in shares and approved lending agent	24,574,104 (Long position) *(Note 6)*	5.94	2.06

REPORT OF THE DIRECTORS

Note 1: Unlisted shares.

Note 2: Weiqiao Investment holds 39% equity interests 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 44,313,998 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.

Note 6: According to the disclosure of interests published on the website of the Stock Exchange by Citigroup Inc., Citigroup Inc. was deemed to hold 344 H shares through the interest of a controlled corporation, hold 7,693,000 H shares through the security interest and hold 16,880,760 H shares in its capacity as approved lending agent.

Save as disclosed above, to the best knowledge of the Directors, supervisors and the chief executive of the Company, as at 31 December 2020, there was no any other person (other than the Directors, supervisors or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company under section 336 of the SFO.

REPORT OF THE DIRECTORS

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY

As at 31 December 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 and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests 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 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 31 December 2020** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2020** *(%)*
Ms. Zhang Hongxia *(Executive Director/Chairman)*	Beneficial interest	17,700,400	2.27	1.48

Note 1: Unlisted shares.

REPORT OF THE DIRECTORS

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 31 December 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 31 December 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 the 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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of any business of the Company was entered into by the Company or subsisted during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

At no time during the year ended 31 December 2020 and up to the date of this annual report, there was or is, any permitted indemnity provision being in force for the benefit of any directors of the Company (whether made by the Company or otherwise) or of its associated company (if made by the Company).

The Company has purchased and maintained Directors', supervisors' and senior management liability insurance for the year ended 31 December 2020, which provides appropriate protection over certain legal actions brought against its Directors, supervisors and senior management.

CONNECTED TRANSACTIONS

During the year ended 31 December 2020, certain transactions were entered into between the Group and the following connected persons:

1. The Holding Company is the controlling shareholder of the Company. It therefore constitutes a connected person of the Company under the Listing Rules.

2. Weilian Print is a 73% owned subsidiary of the Holding Company. Shandong Weiqiao Hengfu Knitting Co., Ltd. (山東魏橋恒富針織印染有限公司) ("Hengfu Knitting") is a 60% owned subsidiary of the Holding Company. Shandong Weiqiao Hongyuan Home Textile Co., Ltd. (山東魏橋宏源家紡有限公司) is a 60% owned subsidiary of the Holding Company. Shandong Weiqiao Tekuanfu Co., Ltd. (山東魏橋特寬幅印染有限公司) is a 99% owned subsidiary of the Holding Company. Shandong Weiqiao Garment Co., Ltd. (山東魏橋服裝有限公司) is a 67.18% owned subsidiary of the Holding Company. Shandong Weiqiao Elite Garment Co., Ltd. (山東魏橋創杰服裝有限公司) is a 75% owned subsidiary of the Holding Company. Shandong Weiqiao Jiajia Home Textile Co., Ltd. (山東魏橋嘉嘉家紡有限公司) is a 100% owned subsidiary of the Holding Company. Shandong Xiangshang Fushi Culture Co., Ltd. (山東向尚服飾文化有限公司) is a 100% owned subsidiary of the Holding Company. As the above eight companies are subsidiaries of the Holding Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Both Zouping County Hongli Thermal Power Co., Ltd. (鄒平縣宏利熱電有限公司) ("Hongli Thermal Power") and Binzhou City Hongnuo New Materials Co., Limited (濱州市宏諾新材料有限公司) ("Binzhou City Hongnuo") are indirectly wholly-owned subsidiaries of China Hongqiao. As China Hongqiao is an associate of the executive Directors Ms. Zhang Hongxia and Ms. Zhang Yanhong, therefore each of Hongli Thermal Power and Binzhou City Hongnuo constitutes a connected person of the Company under the Listing Rules.

Details of the continuing connected transactions of the Group for the year ended 31 December 2020 are set out below. The Company has complied with the relevant requirements under the Listing Rules.

REPORT OF THE DIRECTORS

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

On 25 August 2003, the Company and the Holding Company entered into a supply of products, raw materials and processing services agreement (the "Supply Agreement"), pursuant to which the Group will supply cotton yarn, grey fabric and denim to the Parent Group for a term of three years commencing from 25 August 2003 to 25 August 2006 (both dates inclusive). In September 2003, the Stock Exchange granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of the supply of cotton yarn and grey fabric by the Group to the Parent Group under the Supply Agreement. The waiver was granted for a term of three financial years ended 31 December 2005. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company renewed the Supply Agreement on 25 August 2006 for a term of three years commencing from 25 August 2006 to 24 August 2009 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn, grey fabric and denim supply agreement on 20 October 2008 with a term of three years starting from 1 January 2009 and ending on 31 December 2011 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn, grey fabric and denim supply agreement on 31 October 2011 with a term of three years commencing on 1 January 2012 and ending on 31 December 2014 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn, grey fabric and denim supply agreement on 21 October 2014 with a term of three years commencing on 1 January 2015 and ending on 31 December 2017 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn, grey fabric and denim supply agreement (the "Old Supply Agreement") on 17 October 2017 with a term of three years commencing on 1 January 2018 and ending on 31 December 2020 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn, grey fabric and denim supply agreement (the "Renewed Supply Agreement") on 16 October 2020 with a term of three years commencing on 1 January 2021 and ending on 31 December 2023 (both dates inclusive), pursuant to which the Company agreed to continue to supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Parent Group. The terms and conditions of the Renewed Supply Agreement are substantially the same with those of the Old Supply Agreement.

The prices of cotton yarn, grey fabric and denim supplied by the Group to the Parent Group are determined by reference to the prices at which comparable types of relevant products are supplied by the Group to independent third parties under normal commercial terms in the ordinary course of its business in the PRC. The annual caps under the Old Supply Agreement for the three financial years ended 31 December 2020 were RMB599,700,000 (exclusive of value-added tax (VAT)), RMB791,610,000 (exclusive of VAT) and RMB1,044,920,000 (exclusive of VAT). The annual caps under the Renewed Supply Agreement for the three financial years ending 31 December 2023 are RMB432,380,000 (exclusive of VAT), RMB475,620,000 (exclusive of VAT) and RMB523,180,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the prospectus of the Company and the Company's announcements and circulars dated 28 December 2006, 15 January 2007, 20 October 2008, 31 October 2008, 31 October 2011, 11 November 2011, 21 October 2014, 24 November 2014, 17 October 2017, 10 November 2017, 16 October 2020 and 9 November 2020, respectively.

Lease of Land Use Rights and Properties by the Holding Company to the Company

The Company and the Holding Company entered into relevant leasing agreements, pursuant to which the Holding Company agreed to lease to the Company the land use rights in respect of lands respectively located at No. 34 Qidong Road and west of Xiwaihuan Road, Weiqiao Town, Zouping City, Shandong Province, the PRC, and the land use rights in respect of land located within the economic development zone which is situated to the east of Zouping City, Shandong Province, the PRC and the properties erected thereon, for the Company's operations, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

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

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

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

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

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

(6) An office lease agreement dated 31 January 2013 with the commencement date and expiry date on 1 February 2013 and 1 February 2016, respectively, was entered into with an annual rental of RMB600,000 for a building located at No. 1, Wei Fang Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC. On 31 January 2016 and 31 January 2019, the agreement was renewed with a term commencing from 1 February 2016 and ending on 1 February 2019, and a term commencing from 1 February 2019 and ending on 1 February 2022, respectively. The terms and conditions of the renewed agreement are substantially the same as those of the old agreement.

(7) A land use right lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, was entered into with an annual rental of RMB7,001,400 for the land relating to the Zouping Industrial Park Area.

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

On 26 November 2008 and 14 December 2011, respectively, the leases of certain parts of the land where the Zouping Third Industrial Park is located were terminated and the annual rentals have been adjusted thereafter to RMB3,816,000 and RMB2,070,000, respectively, on a pro-rata basis. Except for this, all of the original conditions and terms remain unchanged.

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

(10) A plant lease agreement dated 1 May 2016 (the "Old Plant Lease Agreement") with the commencement date and expiry date on 1 May 2016 and 1 May 2019, respectively, was entered into with an annual rental of RMB800,000 for a production plant located at the southern side of Huixian One Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC. Pursuant to the renewal term of the Old Plant Lease Agreement, both parties entered into a plant lease agreement (the "Renewed Plant Lease Agreement") on 1 May 2019 with a term of three years from 1 May 2019 to 1 May 2022. The terms of the Renewed Plant Lease Agreement are substantially the same as those of the Old Plant Lease Agreement.

(11) A plant lease agreement dated 1 January 2020 (the "Old Plant Lease Agreement") with the commencement date and expiry date on 1 January 2020 and 31 December 2020, respectively, was entered into with an annual rental of RMB500,000 for a plant located at the southern side of Huixian One Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC. Both parties and Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (the "New Lessee"), a wholly-owned subsidiary of the Company, entered into the Assignment Agreement of the Rights and Obligations on 1 November 2020. From the date of execution, all the rights/obligations of the Company under the Old Plant Lease Agreement shall be transferred to the New Lessee. The Holding Company and the New Lessee entered into a plant lease agreement (the "Renewed Plant Lease Agreement") on 1 January 2021 with a term of one year from 1 January 2021 to 31 December 2021. The terms of the Renewed Plant Lease Agreement are substantially the same as those of the Old Plant Lease Agreement.

The rent chargeable by the Holding Company to the Company was determined by reference to the market rent, namely the rent receivable for leasing similar land use rights and properties to independent third parties under normal commercial terms in the ordinary course of its business in Zouping City, Shandong Province, the PRC. For further details of the leases of land use rights and properties to the Company by the Holding Company, please refer to Note 36, headed "Related Party Transactions", to the consolidated financial statements.

Supply of Excess Electricity by the Company to the Holding Company

On 18 March 2008, the Company and the Holding Company entered into an excess electricity supply agreement, pursuant to which the Company shall supply electricity, which is in excess of the Group's actual electricity consumption, to the Holding Company for a term commencing on 18 March 2008 and ending on 31 December 2010 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an excess electricity supply agreement on 4 November 2010 for a term of three years commencing on 1 January 2011 and ending on 31 December 2013 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an excess electricity supply agreement on 1 November 2013 for a term commencing on 1 January 2014 and ending on 31 December 2016 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an excess electricity supply agreement (the "Old Excess Electricity Supply Agreement") on 26 October 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an excess electricity supply agreement (the "Renewed Excess Electricity Supply Agreement") on 21 October 2019 for a term commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive), pursuant to which the Company agreed to continue to supply excess electricity to the Parent Group. Terms and conditions under the Renewed Excess Electricity Supply Agreement are basically the same as the terms and conditions under the Old Excess Electricity Supply Agreement.

The benchmark price of excess electricity supplied to the Parent Group by the Group was RMB0.37 per kWh (VAT inclusive). Such benchmark price of excess electricity was determined on a cost-plus basis. The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins of supply of excess electricity for the nine years ended 31 December 2018. The Company and the Holding Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh (VAT inclusive) on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal. Each of the annual caps under the Renewed Excess Electricity Supply Agreement for the three financial years ending 31 December 2022 is RMB3,124,232,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the prospectus of the Company and the Company's announcements and circulars dated 13 August 2005, 16 August 2005, 14 January 2008, 1 February 2008, 20 October 2008, 31 October 2008, 4 November 2010, 8 November 2010, 1 November 2013, 12 November 2013, 21 October 2014, 24 November 2014, 22 March 2015, 17 April 2015, 26 October 2016, 29 November 2016, 21 October 2019 and 11 November 2019, respectively.

REPORT OF THE DIRECTORS

Supply of Steam for Production Use by Hongli Thermal Power to Ming Hong Textile

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

As such steam supply agreement was terminated by the Holding Company by providing written notice pursuant to the termination terms as set out in the agreement on 20 October 2017, Hongli Thermal Power and Shandong Ming Hong Textile Technology Company Limited ("Ming Hong Textile"), a wholly-owned subsidiary of the Company, entered into a steam supply agreement (the "Old Weiqiao Steam Supply Agreement") on 20 October 2017 for a term from 20 October 2017 to 31 December 2019 (both days inclusive). Pursuant to the renewal terms of such agreement, Hongli Thermal Power and Ming Hong Textile entered into a steam supply agreement (the "Renewed Weiqiao Steam Supply Agreement") on 21 October 2019 for a term commencing on 1 January 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which, Hongli Thermal Power agreed to continue to supply steam to Ming Hong Textile for the production needs in Weiqiao Production Base. Terms and conditions under the Renewed Weiqiao Steam Supply Agreement are basically the same as the terms and conditions under the Old Weiqiao Steam Supply Agreement.

The price of steam supplied by Hongli Thermal Power to Ming Hong Textile was RMB150 per ton (VAT inclusive), which was determined by reference to the prices at which the same or comparable types of steam used for production are supplied by Hongli Thermal Power to any independent third parties on normal commercial terms in its ordinary and usual course of business in Weiqiao Town, Zouping City, Shandong Province, the PRC. Each of the annual caps under the Renewed Weiqiao Steam Supply Agreement for the three financial years ending 31 December 2022 is RMB4,530,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the Company's announcements dated 3 July 2015, 20 October 2017 and 21 October 2019.

Supply of Steam for Production Use by Binzhou City Hongnuo to Binzhou Industrial Park

Binzhou Industrial Park, a subsidiary of the Company, and Binzhou City Hongnuo entered into a steam supply agreement on 3 July 2015, pursuant to which, Binzhou City Hongnuo shall supply steam to Binzhou Industrial Park for its production use for a term from 3 July 2015 to 31 December 2017 (both days inclusive). Pursuant to the renewal mechanism of such agreement, Binzhou Industrial Park and Binzhou City Hongnuo entered into a steam supply agreement (the "Old Binzhou Steam Supply Agreement") on 20 October 2017 for a term from 1 January 2018 to 31 December 2019 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, Binzhou Industrial Park and Binzhou City Hongnuo entered into a steam supply agreement (the "Renewed Binzhou Steam Supply Agreement") on 21 October 2019 for a term commencing on 1 January 2020 and ending on 31 December 2022 (both dates inclusive), pursuant to which, Binzhou City Hongnuo agreed to continue to supply steam to Binzhou Industrial Park for the production need in Binzhou Production Base. Terms and conditions under the Renewed Binzhou Steam Supply Agreement are basically the same as the terms and conditions under the Old Binzhou Steam Supply Agreement.

The price of steam supplied by Binzhou City Hongnuo to Binzhou Industrial Park was RMB170 per ton (VAT inclusive), which was determined by reference to the prices at which the same or comparable types of the steam used for production are supplied by Binzhou City Hongnuo to any independent third parties on normal commercial terms in its ordinary and usual course of business in Binzhou City, Shandong Province, the PRC. Each of the annual caps under the Renewed Binzhou Steam Supply Agreement for the three financial years ending 31 December 2022 is RMB27,020,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the Company's announcements dated 3 July 2015, 20 October 2017 and 21 October 2019.

Supply of Production Water by the Holding Company to Huineng Thermal Power

On 23 January 2019, Zouping County Huineng Thermal Power Company Limited ("Huineng Thermal Power"), a subsidiary of the Company, entered into a production water supply agreement with the Holding Company (the "Production Water Supply Agreement") for a term commencing on 23 January 2019 and ending on 31 December 2021, pursuant to which the Holding Company agreed to supply water to Huineng Thermal Power for production use.

For the financial year ended 31 December 2020, the price of production water supplied by the Holding Company to Huineng Thermal Power was approximately RMB1.553 per ton (VAT exclusive) or RMB1.6 per ton (VAT inclusive), which was determined with reference to the market price of production water supplied by other independent third parties in Zouping City. The price of production water supplied by the Holding Company to Huineng Thermal Power for the financial year ending 31 December 2021 shall be re-determined by the two parties within one month prior to the end of the previous year through negotiation with reference to the then market price of production water supplied by other independent third parties in Zouping City. The Holding Company has agreed that, in principle, the price of production water provided by the Holding Company to Huineng Thermal Power shall not be higher than the then market price of production water supplied by other independent third parties in Zouping City. Each of the annual caps under the Production Water Supply Agreement for the three financial years ending 31 December 2021 is RMB61,700,000 (VAT exclusive).

Further details of this continuing connected transaction are set out in the Company's announcement dated 23 January 2019.

Lease of Property Use Rights by Hongru Textile to Hengfu Knitting

On 1 January 2014, the Company and the Holding Company entered into the production plant lease agreement for a term of three years commencing on 1 January 2014 and ending on 31 December 2016 with an annual rental of RMB800,000, pursuant to which the Company agreed to lease to the Holding Company certain production plants (the "Target Plants") located at the southern side of Huixian One Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC, for the production and operation of the Holding Company.

Due to business restructuring of the Holding Company, the Target Plants were transferred by the Holding Company for use by Hengfu Knitting, a subsidiary of the Holding Company. On 1 February 2016, the Company, the Holding Company and Hengfu Knitting entered into the tripartite agreement (the "Tripartite Agreement I") to reflect the foresaid change. The principal terms of the Tripartite Agreement I provide that Hengfu Knitting as the new lessee shall lease the Target Plants from the Company from the effective date of the Tripartite Agreement I and bear the rental incurred from the effective date of the Tripartite Agreement I, while the rental incurred before the effective date of the Tripartite Agreement I shall be borne by the Holding Company.

Due to business restructuring, the Company established Shandong Hongru Textile Technology Company Limited ("Hongru Textile"), a wholly-owned subsidiary of the Company, and transferred the Target Plants to Hongru Textile. On 1 May 2016, the Company, Hongru Textile and Hengfu Knitting entered into the tripartite agreement (the "Tripartite Agreement II") to reflect the aforesaid change. The principal terms of the Tripartite Agreement II provide that Hongru Textile as the new lessor shall lease the Target Plants to Hengfu Knitting from the effective date of the Tripartite Agreement II and receive the relevant rental accrued from the effective date of the Tripartite Agreement II, while the Company shall be entitled to receive the rental accrued before the effective date of the Tripartite Agreement II.

Pursuant to the renewal mechanism of the plant lease agreement, Hongru Textile and Hengfu Knitting entered into a production plant lease agreement (the "Old Plant Lease Agreement") on 1 January 2017 for a term of three years commencing on 1 January 2017 and ending on 31 December 2019. Pursuant to the renewal mechanism of the Old Plant Lease Agreement, Hongru Textile and Hengfu Knitting entered into a production plant lease agreement (the "Renewed Plant Lease Agreement") on 1 January 2020 for a term of three years commencing on 1 January 2020 and ending on 31 December 2022. Terms and conditions under the Renewed Plant Lease Agreement are basically the same as the terms and conditions under the Old Plant Lease Agreement.

Product Processing Service by the Holding Company Entrusted by the Company

The Company and the Holding Company entered into the entrusted processing service agreement ("Entrusted Processing Service Agreement") on 2 July 2020 for a term commencing on 2 July 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which the Holding Company agreed to provide grey fabric processing services to the Company.

The processing fees of the processing services provided by the Holding Company to the Company shall be determined on a cost plus basis with reference to the cost of dye, grey fabric loss and the labour cost. The Holding Company has agreed that, in principle, the terms and conditions of the processing services offered by the Holding Company to the Company shall be no less favourable than the terms and conditions offered by the Holding Company to independent third parties in the PRC for providing the same or similar processing services on normal commercial terms in its ordinary and usual course of business. The Holding Company shall provide the evidence of such market prices to the Company upon the request by the Company. The annual caps under the Entrusted Processing Service Agreement for the period from 2 July 2020 to 31 December 2020 and the two financial years ending 31 December 2022 are RMB12,000,000 (exclusive of VAT), RMB24,000,000 (exclusive of VAT) and RMB24,000,000 (exclusive of VAT), respectively.

Further details of this continuing connected transaction are set out in the Company's announcement dated 2 July 2020.

Figures for the Year Ended 31 December 2020

Below is a table setting out the aggregate value for each of the above-mentioned continuing connected transactions for the year ended 31 December 2020:

	Transaction nature	Aggregate value for the year ended 31 December 2020 *(RMB'000)*
1.	Supply of cotton yarn, grey fabric and denim by the Group to the Parent Group	300,221
2.	Supply of excess electricity by the Company to the Holding Company	1,702,005
3.	Lease of property by Hongru Textile to Hengfu Knitting	734
4.	Lease of land use rights and properties by the Holding Company to the Group	17,674
5.	Supply of steam for production use by Hongli Thermal Power to Ming Hong Textile	3,611
6.	Supply of water for production use by the Holding Company to Huineng Thermal Power	11,464
7.	Supply of steam for production use by Binzhou City Hongnuo to Binzhou Industrial Park	10,354
8.	Product processing service by the Holding Company entrusted by the Company	926

Save as disclosed above, the other transactions as set out in Note 36 to the consolidated financial statements did not constitute continuing connected transactions or connected transactions of the Company under Chapter 14A of the Listing Rules, or were exempted from reporting, announcement, annual review and independent shareholders' approval requirements pursuant to Rule 14A.76 and other rules of the Listing Rules. The Directors confirmed that, the Company has complied with relevant disclosure requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Confirmation by the Independent Non-executive Directors and Auditors

The independent non-executive Directors have reviewed the continuing connected transactions and confirmed that each of the continuing connected transactions has been entered into:

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

(ii) on normal commercial terms or better; and

(iii) according to the agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a letter to the Board confirming that, for the year ended 31 December 2020, nothing has come to their attention that causes them to believe that the above continuing connected transactions:

(i) have not been approved by the Board;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group (for those transactions involving the provision of goods or services by the Group);

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; or

(iv) have exceeded the respective annual caps.

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 3, Note 12 and Note 37 to the consolidated financial statements.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company 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 year ended 31 December 2020, each of the Directors and supervisors of the Company has complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' and supervisors' securities transactions.

CODE ON CORPORATE GOVERNANCE

The Company has applied the principles in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and has been in compliance with all code provisions as set out in the CG Code for the year ended 31 December 2020.

PUBLIC FLOATING

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Company has sufficient public floating as required under Rule 8.08 of the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with the CG Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of three independent non-executive Directors. An Audit Committee meeting was held on 19 March 2021 and has reviewed the Group's annual results and financial statements.

BUSINESS REVIEW

The business review of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 12 to 15.

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited was the Company's international auditor for the year ended 31 December 2020. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as the international auditor of the Company will be proposed at the 2020 annual general meeting of the Company.

On Behalf of the Board

Ms. Zhang Hongxia
Chairman

Shandong, the PRC
19 March 2021

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2020, the supervisory committee of the Company (the "Supervisory Committee") duly performed its duties of supervision in accordance with the principle of being accountable to shareholders and the laws and regulations including the Company Law of the PRC and the Articles of Association. During the Year, the Supervisory Committee actively participated in reviewing the subject matters of material decisions and the significant economic activities of the Company, provided advice and recommendations thereon, effectively supervised the acts of the Directors and the management in performing their duties and reviewed on an irregular basis the Company's operation and financial positions so as to protect the interests of shareholders. The work of the Supervisory Committee in 2020 is reported as follows:

1. Work of the Supervisory Committee

In 2020, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 13 March 2020, the fourth meeting of the 7th session of the Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, "The Working Report of the Supervisory Committee for 2019", "The Audited Financial Report for the Year Ended 31 December 2019", "The Profit Distribution Proposal for 2019" and "The Financial Report on the Final Account for 2019" were reviewed and approved.

2. On 14 August 2020, the fifth meeting of the 7th session of the Supervisory Committee was convened at the Company's meeting room on the 4th floor. All the three members of the Supervisory Committee attended the meeting. At the meeting, the review result report for the six months ended 30 June 2020 issued by SHINEWING (HK) CPA Limited was reviewed and approved.

2. Independent Opinions of the Supervisory Committee on Relevant Issues of the Company for 2020

1. Operation in compliance with laws

During the Year under Review, the members of the Supervisory Committee participated in the discussion on major operational decisions of the Company by sitting in on Board meetings and general meetings of the Company and carried out supervision on the Company's financial and operational positions. The Supervisory Committee is of the view that in 2020, the Company operated in strict compliance with the Company Law, the Articles of Association and other related laws and regulations and the decisions made were scientific and reasonable; the internal management and internal control system was improved and a sound internal control mechanism was established; the Directors and senior management of the Company performed their duties diligently and in compliance with the laws and regulations and the Articles of Association to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

2. Financial activities of the Company

The Supervisory Committee had reviewed and inspected the financial position and financial management of the Company, and considered that the Group's financial report for 2020 truly reflected the financial position and operational results of the Group, and the audit report with standard unqualified opinion issued by SHINEWING (HK) CPA Limited was true and fair.

3. ***Connected transactions of the Company***

The Supervisory Committee is of the view that, the connected transactions of the Company during the Year under Review were conducted at arm's length with reasonable pricing and without prejudice to the interests of shareholders and the Company; there was no use of capitals for non-operational purpose by the controlling shareholder and other related parties.

In 2021, the Supervisory Committee will continue to monitor and facilitate the improvement in the Company's governance structure in accordance with relevant provisions of the Articles of Association, put more emphasis on the coordination of the power structure, decision-making body and implementation body of the Company, concern for the relationships among shareholders and the management of the Company, pay attention to the progress and problems in the acts, performance and results of the management at all levels, and perform its duties diligently to protect the legitimate interests of the Company and shareholders.

By Order of the Supervisory Committee

Ms. Wang Xiaoyun
Chairman of Supervisory Committee

Shandong, the PRC
19 March 2021

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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

The Company has applied the principals in the CG Code. During the year ended 31 December 2020, the Company has complied with all code provisions as set out in the CG Code.

DIRECTORS' AND SUPERVISORS' SECURITIES TRANSACTIONS

The Company 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 year ended 31 December 2020, each of the Directors and supervisors of the Company has complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' and supervisors' securities transactions.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

As at 31 December 2020, the Board comprised four executive Directors, one non-executive Director and three independent non-executive Directors.

The Board members are as follows:

Executive Directors

Ms. Zhang Hongxia *(Chairman)*
Ms. Zhang Yanhong *(Vice Chairman)*
Ms. Zhao Suwen
Mr. Zhang Jinglei

Non-executive Director

Ms. Zhao Suhua

Independent Non-executive Directors

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

Ms. Zhang Hongxia is the elder sister of Ms. Zhang Yanhong. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Responsibilities of the Board

The Board is accountable to the general meeting, and is responsible for convening general meetings; implementing resolutions of the general meetings; formulating operating plans and investment plans of the Company; formulating annual financial budgets and final accounts of the Company; formulating profit distribution plans (including the plan for the distribution of final dividends) and the plan to make up losses of the Company; formulating the plans to increase or reduce the registered capital of the Company and to issue the Company's debentures; formulating the plans for the Company's merger, demerger and dissolution; making decisions on the deployment of the internal management bodies of the Company; appointing or removing the Company's general manager and the Company's deputy general manager and financial controller pursuant to the nomination of the general manager, and making decisions on their remunerations; formulating the Company's basic management system; formulating the plans for the amendment to the Articles of Association; subject to compliance with the relevant requirements of the state, making decisions on the level of salaries, welfare and incentives measures of the Company; making decisions on other significant operations and administrative matters not required to be decided by the general meeting under the Articles of Association; formulating major acquisition or disposal plans of the Company and other duties as provided by the Articles of Association.

The Board is also responsible for fulfilling its corporate governance responsibilities as set out in code provision D.3.1 of the CG Code, which include but not limited to:

(i) developing and reviewing the Company's policies and practices on corporate governance;

(ii) reviewing and monitoring the training and continuous professional development of the Directors and senior management;

(iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) developing, reviewing and monitoring the code of conduct and compliance manual applicable to the employees and the Directors; and

(v) reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report.

During the year ended 31 December 2020, the Board has fulfilled the above corporate governance responsibilities. The Board has reviewed the Company's compliance with the CG Code for the year ended 31 December 2020 and this corporate governance report.

Delegation of management function of the Board

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial statements and other significant financial and operational matters.

All Directors have full and timely access to all relevant statements as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management. The delegated functions and work tasks are periodically reviewed by the Board.

Responsibilities of Management

The general manager of the Company is accountable to the Board, and is responsible for taking lead in the management of the Company's production operations, organising the implementation of the resolutions of the Board; organising the implementation of the Company's annual operation plans and investment plans; formulating the deployment plans for the Company's internal management bodies; formulating the Company's basic management system; formulating the Company's basic rules and regulations; proposing for the appointment or removal of the Company's deputy general manager and financial controller; appointing or removing the management personnel other than those required to be appointed or removed by the Board; and other duties as conferred by the Articles of Association and the Board.

The company secretary of the Company is accountable to the Board, assuring that the Board is in compliance with all applicable regulations and rules. The company secretary of the Company also keeps the minutes of meetings of the Board and its committees.

Appointment and Re-election of Directors

The procedures of appointment, re-election and removal of Directors are laid down in the Articles of Association. The nomination committee of the Board (the "Nomination Committee") is responsible for reviewing the Board composition, selecting or making recommendations to the Board on the selection of individuals nominated for directorships and assessing the independence of the independent non-executive Directors.

Pursuant to the Articles of Association, Directors shall serve a term of three (3) years commencing from the date of being elected. Directors should retire upon expiry of the said term, but may serve successive terms if being re-elected at general meeting. Non-executive Directors should be appointed for a specific term. All Directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after the appointment.

Each of the executive Directors has entered into a service contract with the Company for a term of three years. 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. Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Zhang Jinglei, Ms. Zhao Suhua, Mr. Chan Wing Yau, George were re-elected as the Directors at the 2017 annual general meeting of the Company held on 28 May 2018. Mr. Liu Yanzhao was appointed as an independent non-executive Director at the 2017 annual general meeting of the Company. Mr. Chen Shuwen was re-elected as an independent non-executive Director at the 2019 annual general meeting of the Company.

Board meetings

Pursuant to the code provision A.1.1 of the CG Code, the Board shall meet regularly and Board meetings shall be held at least four times a year at approximately quarterly intervals and each regular meeting of the Board will involve the active participation, either in person or through electronic means of communication, of a majority of Directors entitled to be present.

Pursuant to the Articles of Association, at least four regular meetings of the Board shall be convened by the Company each year. Such meetings shall be convened by the chairman of Board by giving notice to all the Directors fourteen (14) days prior to the date of the said meeting. An agenda of a regular Board meeting shall be sent at least three (3) days prior to the suggested date of the said meeting. Where there is an emergency, an extraordinary meeting of the Board may be convened upon suggestion by 1/3 or more of the Directors or the Company's general manager.

The general manager of the Company shall be present at the Board meetings to advise on business development, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company. The secretary to the Board is responsible for keeping minutes of the meetings of the Board and the Board committees.

The Articles of Association also contain provisions that, in principle, the Directors shall not vote on any resolution of the Board with contracts, arrangements or any other suggestion where they or any of their associates have a material interest, and shall not be counted in the quorum of the relevant Board meeting.

The Directors' Attendance Record at Meetings

During the year ended 31 December 2020, six Board meetings were held by the Directors either in person or through electronic means of communication and the attendance of individual Directors at the Board meetings and general meetings are set out below:

Board members	Attendance of Board meetings held in 2020	Attendance of general meetings held in 2020
Ms. Zhang Hongxia	5/6	2/2
Ms. Zhang Yanhong	4/6	2/2
Ms. Zhao Suwen	4/6	2/2
Mr. Zhang Jinglei	4/6	2/2
Ms. Zhao Suhua	5/6	2/2
Mr. Chan Wing Yau, George	5/6	2/2
Mr. Chen Shuwen	5/6	2/2
Mr. Liu Yanzhao	5/6	2/2

During the year ended 31 December 2020, the chairman of the Board held a meeting with the independent non-executive Directors without the presence of other Directors.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

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

The responsibility of the chairman is to provide leadership for the Board as well as to ensure that the Board works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. The chairman is also responsible for formulating the Group's overall corporate direction and focus. The responsibility of the chief executive officer is to manage the business of the Company. The chairman and chief executive officer shall have clearly defined roles and duties, which are set out in the code of corporate governance of the Company.

TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

Each of the non-executive Directors, independent non-executive Directors and supervisors of the Company has signed a letter of appointment with the Company for a term of three years respectively.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Since the listing date on 24 September 2003, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received annual confirmation from each independent non-executive Director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all the independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

By reference to the guidelines as set out in Rule 3.13 of the Listing Rules, the Company confirms the independence of all the independent non-executive Directors.

INDUCTION TRAINING AND DEVELOPMENT

The Company provides induction training programme for all new Directors which, taking into account their experience and background, is designed to enhance their knowledge and understanding of the Group's culture and operations as well as their relevant roles and responsibilities. Development and training of the Directors is an ongoing process so that they can perform their duties appropriately. All the Directors are encouraged to attend relevant training courses at the Company's expense. During the period from January 2020 to December 2020, all the Directors have been required to provide their training records to the Company, which were kept by the company secretary of the Company. All the Directors, namely Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Mr. Zhang Jinglei, Ms. Zhao Suhua, Mr. Chan Wing Yau, George, Mr. Chen Shuwen and Mr. Liu Yanzhao have participated in relevant trainings and continuous study in relation to corporate governance and company management, so as to enhance their professional knowledge and skills.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors, the supervisors, the chief executive and the five individuals with the highest emoluments for the year ended 31 December 2020 are set out in Note 13 to the consolidated financial statements.

Remuneration paid to the senior management (excluding the Directors and supervisors) by bands for the year ended 31 December 2020 is set out below:

Remuneration bands	**Number of individuals**
HK$500,000 to HK$1,000,000 (approximately RMB433,000 to RMB866,000)	1

CORPORATE GOVERNANCE REPORT

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2020, the Board conducted evaluations of its performance.

SUBORDINATE COMMITTEES OF THE BOARD

- the Audit Committee
- the Remuneration Committee
- the Nomination Committee

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

A. AUDIT COMMITTEE

The Audit Committee was established on 9 January 2003. The Audit Committee currently comprised three independent non-executive Directors.

The Composition of the Audit Committee

Mr. Chan Wing Yau, George *(Chairman of the Audit Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

The Audit Committee held a total of two meetings during the year ended 31 December 2020.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Audit Committee at the Audit Committee meetings held during the year ended 31 December 2020:

Members of Audit Committee	Attendance of Audit Committee meetings held in the year ended 31 December 2020
Mr. Chan Wing Yau, George	2/2
Mr. Chen Shuwen	2/2
Mr. Liu Yanzhao	2/2

The following resolutions were passed on 13 March 2020 after due consideration by members of the Audit Committee present:

1. the audit results report of the Company for the year ended 31 December 2019;

2. the report of the Board of the Company for 2019;

3. the audited financial report of the Company for the year ended 31 December 2019;

4. the profit distribution plan and financial report on the final account of the Company for 2019;

5. the re-appointment of ShineWing Certified Public Accountants LLP as the Company's domestic auditor for the year ended 31 December 2020 and SHINEWING (HK) CPA Limited as the Company's international auditor for the year ended 31 December 2020;

6. the matters in relation to the connected transactions of the Company; and

7. the annual report and results announcement of the Company for 2019.

On 14 August 2020, the following resolutions were passed after due consideration by members of the Audit Committee present:

1. the interim review report of the Company for the six months ended 30 June 2020;

2. the unaudited financial report of the Company for the six months ended 30 June 2020; and

3. 2020 interim report and the relevant announcement of the Company.

At the above meetings, the Audit Committee also reviewed the Company's risk management and internal control systems, which covered the financial control, operational control and compliance control, and considered the Company's risk management and internal control systems as well as the internal audit functions to be effective.

Roles and Functions

The Audit Committee is mainly responsible for:

(1) providing advice and recommendations to the Board on the appointment, reappointment and dismissal of the external auditors, approving the remuneration and recruitment terms of the external auditors as well as dealing with issues relating to the resignation or dismissal of the external auditors (in case the Board disagrees with the Audit Committee on the selection, appointment, resignation or dismissal of the external auditors, the Company should set out in the Corporate Governance Report the statement of the Audit Committee in which their opinions are clearly stated as well as the reasons for the Board's disagreement with such opinions);

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

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

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

    (i) any changes in accounting policies and practices;

    (ii) areas where significant judgment is involved;

    (iii) significant adjustments arising from audit;

    (iv) any assumptions on the operation of the Company on a going-concern basis and any qualified opinions;

    (v) whether the accounting standards have been complied with; and

    (vi) whether the Listing Rules and other laws and regulations relating to financial reporting have been complied with;

(5) in respect of the four items above:

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

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

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

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

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

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

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

(11) reviewing the audit results and relevant communication reports provided by the external auditors to the management, and any significant doubt raised by the auditors to the management in respect of accounting records, financial accounts or control systems and the management's feedbacks in this respect;

(12) ensuring the Board's timely response to the matters as set out in the audit results and relevant communication reports provided by the external auditors to the management;

(13) reporting to the Board in respect of the matters set out in code provisions of the CG Code contained in Appendix 14 to the Listing Rules;

(14) reviewing the following arrangements made by the Company: employees of the Company may raise concerns in strict confidence on potential misconduct in respect of financial reporting, internal control or other aspects. The Audit Committee should ensure that appropriate arrangements are made to enable the Company to conduct a fair and independent investigation of these matters and take proper measures;

(15) acting as a primary channel between the Company and the external auditors, and monitoring their working relations; and

(16) reporting to the Board in respect of the matters mentioned above.

The Audit Committee had meetings with the external auditors during the Year to discuss the interim and annual financial statements and the audit matters.

CORPORATE GOVERNANCE REPORT

In case the Audit Committee is in doubt about the financial statements and the control systems of the Company in the course of the audit, the management of the Company should provide the Audit Committee members with all the relevant details, analysis and supporting documents, so as to ensure that the Audit Committee members are completely satisfied and provide appropriate recommendations to the Board.

B. REMUNERATION COMMITTEE

The Remuneration Committee was established on 28 February 2005. The Remuneration Committee currently comprised an executive Director and two independent non-executive Directors.

The Composition of the Remuneration Committee

Mr. Liu Yanzhao *(Chairman of the Remuneration Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

One meeting was held by the Remuneration Committee during the year ended 31 December 2020.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Remuneration Committee at the Remuneration Committee meetings held during the year ended 31 December 2020:

Members of Remuneration Committee	Attendance of Remuneration Committee meeting held in 2020
Mr. Liu Yanzhao	1/1
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1

At the Remuneration Committee meeting held on 13 March 2020, the Remuneration Committee assessed the performance of the executive Directors, reviewed the Company's remuneration policies as well as reviewed the emoluments of the Directors and supervisors for the year ended 31 December 2020 and made recommendations to the Board.

Roles and Functions

The terms of reference of the Remuneration Committee include the following specific duties:

(1) to consult the chairman and/or chief executive officer about the remuneration proposals for other executive Directors;

(2) to make recommendations to the Board on the Company's policy and structure for all the Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(3) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(4) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(5) to make recommendations to the Board on the remuneration of non-executive Director;

(6) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

(7) to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(8) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(9) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(10) in respect of any service agreement to be entered into between any members of the Group and its director or proposed director that require prior approval of the Company's shareholders pursuant to the Listing Rules, to review and advise the shareholders of the Company (other than shareholder(s) who is/are director(s) with a material interest in the relevant service agreements and their respective associates) as to whether the terms of the service agreements are fair and reasonable and whether such service agreements are in the interests of the Company and the shareholders as a whole, and to advise shareholders on how to vote.

C. NOMINATION COMMITTEE

The Nomination Committee was established on 23 March 2012. The Nomination Committee currently comprised an executive Director and two independent non-executive Directors.

The Composition of the Nomination Committee

Ms. Zhang Hongxia *(Chairman of the Nomination Committee)*
Mr. Chen Shuwen
Mr. Liu Yanzhao

One meeting was held by the Nomination Committee during the year ended 31 December 2020.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Nomination Committee at the Nomination Committee meetings held during the year ended 31 December 2020:

Members of Nomination Committee	Attendance of Nomination Committee meeting held in 2020
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1
Mr. Liu Yanzhao	1/1

At the Nomination Committee meeting held on 13 March 2020, the Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board.

Roles and Functions

The terms of reference of the Nomination Committee include the following specific duties:

(1) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(2) to identify individuals suitably qualified to serve as the Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(3) to assess the independence of the independent non-executive Directors; and

(4) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive officer.

Policy for Nomination of Directors

The procedures of appointment, re-election and removal of the Directors are set out in the Articles of Association. The Nomination Committee carefully considers every aspect including the qualifications and biography of director candidates and then recommends them to the Board. After the Board passes the nomination resolution in relation to the candidate, the resolution will be proposed to the general meeting of the Company for consideration and approval. The Nomination Committee and the Board will consider a number of factors in making nominations, including but not limited to skill, expertise, industrial experience, integrity, independence (regarding the independent non-executive Directors) and the diversity of the Board.

Board Diversity Policy

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

As of the date of this annual report, the Board consists of eight Directors, among whom there are four female Directors as well as professionals in law and accounting. With regard to the gender, professional background, skills and other aspects, the Board has achieved diversity in its membership.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2020.

The Board is responsible for presenting a clear and understandable assessment of the Company's performance in annual and interim reports and other financial disclosures required by the Listing Rules.

The senior management has provided sufficient explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial and other information of the Company put before it for approval.

The Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

PROPOSED GRANT OF A GENERAL MANDATE AT THE 2020 ANNUAL GENERAL MEETING

A general mandate is proposed to be granted to the Board by the shareholders of the Company at the 2020 annual general meeting of the Company to issue, allot and deal with not more than 20% of the aggregate nominal amount of domestic shares or H shares of the Company, subject to specific conditions. For details, please refer to the notice of the 2020 annual general meeting of the Company.

PROPOSED GRANT OF A GENERAL MANDATE TO REPURCHASE H SHARES AT THE 2020 ANNUAL GENERAL MEETING, DOMESTIC SHAREHOLDERS CLASS MEETING AND H SHAREHOLDERS CLASS MEETING

A general mandate is proposed to be granted to the Board by the shareholders of the Company at the 2020 annual general meeting, domestic shareholders class meeting and H shareholders class meeting of the Company to be held on 28 May 2021 to repurchase H shares with not more than 10% of the aggregate nominal amount of H shares of the Company, subject to specific conditions. For details, please refer to the notice of the 2020 annual general meeting, the notice of domestic shareholders class meeting and the notice of H shareholders class meeting of the Company.

EXTERNAL AUDITORS

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

During the year ended 31 December 2020, SHINEWING (HK) CPA Limited and its affiliated firms and ShineWing Certified Public Accountants LLP have provided the Group with the following services:

	2020
	RMB'000
Interim review service (inclusive of value-added tax)	1,800
Annual audit service (inclusive of value-added tax)	4,200
Other non-audit services*	287

* Other non-audit services included tax review, Environmental, Social and Governance report review and internal control review services provided by SHINEWING (HK) CPA Limited's affiliated firms.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's risk management and internal control systems, and reviewing the effectiveness of these systems annually. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Relevant procedures have been designed for safeguarding assets against unauthorized use or disposal, controlling excessive capital expenditure, maintaining proper accounting records, and ensuring the reliability of financial information used for operations or publication. The Company has an internal audit function. The Audit Committee is responsible for internal control to ensure qualified management throughout the Company maintains and monitors the internal control systems on an ongoing basis.

The Group has in place a relatively comprehensive risk management and internal control system and clearly defines the responsibility and authority of each business unit, department and management member. It implements the reporting and approval procedures and accountability system of each business segment to realise compliance operation and monitor and control each segment effectively. Each business unit shall identify risks that may hinder the realisation of business objectives and coordinate with the management members to analyse and evaluate the importance of such risks. The finance department is responsible for monitoring and controlling financial risks and making recommendation on potential risks identified during the approval procedures. Other management departments shall identify and make judgment on various circumstances as well as monitor and assess potential risk factors within the scope of their responsibility and authority. If necessary, they can consult professionals at any time and report to the Board according to the internal management procedure. Before making any material decisions, the Board has to make proper assessment on the possible risks involved and the level of risks.

The Board and the Audit Committee obtain comments from the management with regard to risk management and internal control on an annual basis; they also work together to review the effectiveness of the relevant systems and identify monitoring and control errors and material procedural defects. If any material defects in internal control are found, the management and the Board have to make active response and resolve the existing problems in the most appropriate way and, at the same time, review the prevailing systems and procedures to seek improvement and take remedial measures.

CORPORATE GOVERNANCE REPORT

The Company understands its responsibilities under Part XIVA of the SFO and the Listing Rules and has established procedures and internal control measures for handling and dissemination of inside information. The Company shall make public disclosure on inside information as soon as reasonably practicable. The Company shall also strictly comply with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission of Hong Kong when handling matters involving inside information and prohibit the unauthorized use of confidential or inside information.

The Directors have the responsibility to continuously pay attention to the production and operation conditions and financial position of the Company as well as existing and potential material issues and their impacts; they shall also actively investigate and obtain information required for decision making. After finding out and learning about matters required to be disclosed, the relevant personnel shall make timely report to the management and the responsible Directors, judge and verify the relevant information and materials, make internal assessment on the matters involved and preliminary remedial measures and seek professional advice if necessary. After carrying out the relevant internal procedures, the Company shall confirm the information disclosure arrangement and ensure the truthfulness, accuracy, completeness, timeliness and fairness of the disclosed information and ensure that such information is free of false records, material misstatement or omission.

The Board has reviewed the risk management and internal control systems of the Group for the year ended 31 December 2020, which cover financial, operational, compliance controls and risk management functions, and considers such systems to be effective and adequate. Upon review, the Board also concluded that the Company has adequate resources, staff qualifications and experience, training programmes and budget for handling the account, internal audit and financial reporting functions.

COMPANY SECRETARY

All the Directors have access to the advice and services of the company secretary of the Company, Mr. Zhang Jinglei. The company secretary of the Company reports to the chairman on Board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with shareholders and management. As of 31 December 2020, the company secretary of the Company undertook over 15 hours of professional training to update his skills and knowledge.

CHANGES IN THE ARTICLES OF ASSOCIATION

There was no any significant changes in the Articles of Association for the year ended 31 December 2020.

SHAREHOLDERS' RIGHTS

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

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

A form of proxy for use at a general meeting is enclosed with the notice. Shareholders who are unable to present at the meeting should fill out the form and return the same to the share registrar and transfer office of the Company, so as to appoint a representative, another shareholder or the chairman of the meeting as their proxy.

In accordance with requirements set forth by the Articles of Association of the Company, the Board shall convene an extraordinary general meeting within two months if shareholder(s) holding more than 10% (inclusive) of the Company's issued and outstanding shares carrying voting rights request(s) in writing the convening of an extraordinary general meeting. When the Company convenes an annual general meeting, shareholders holding more than 5% (inclusive) of the total voting shares of the Company shall have the right to submit new proposals in writing to the Company, and the Company shall place the proposals on the agenda for the said annual general meeting if the said proposals fall within the functions and powers of general meetings.

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

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

INVESTORS RELATIONS

The Company maintains a two-way communication channel to report the performance of the Company to its shareholders and investors. Annual reports, accounts and interim reports containing full details of the Company's activities will be dispatched to shareholders and investors. Announcements of the Company can be accessed on the website of the Stock Exchange. The Company also communicates and discloses its latest business development plans through road shows and seminars with institutional investors and analysts, and telephone conferences.

To ensure effective disclosures are made to shareholders and investors, and to ensure the same information is made available to them at the same time, price-sensitive information will be released in the form of official announcements in accordance with the Listing Rules.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

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

To the Shareholders of Weiqiao Textile Company Limited
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Weiqiao Textile Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 78 to 164, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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 2020, 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 (the "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") and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, 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.

Valuation of property, plant and equipment and right-of-use assets

Refer to notes 17 and 18 to the consolidated financial statements and the accounting policies on pages 91 to 93, 96 and 98.

The key audit matter	How the matter was addressed in our audit
We have identified the valuation of property, plant and equipment and right-of-use assets as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by the management in assessing whether there are any indicators of impairment for property, plant and equipment and right-of-use assets at the end of the reporting period which may affect their respective carrying amounts. As at 31 December 2020, the carrying values of property, plant and equipment and right-of-use assets amounted to approximately RMB9,516,424,000 and RMB382,387,000 respectively. An impairment loss of property plant and equipment of approximately RMB61,052,000 was recognised while no impairment loss was recognised for right-of-use assets for the year ended 31 December 2020.	Our audit procedures were designed to evaluate the management's assessment of the indicators of impairment and, where such indicators were identified, assessed the management's impairment testing and identify any valuation risk of property, plant and equipment and right-of-use assets. We have discussed with the management on the key assumptions used in the management's assessment of the indicators of impairment. We have also performed check on sample basis by physically inspecting whether the property, plant and equipment and right-of-use assets are kept in a good condition. We have considered the objectivity, independence and expertise of the valuers, and assessed the appropriateness of their valuation methodology. We challenged the data used as inputs for the valuation, which included reference to the market unit selling price of comparable properties nearby used in the valuation and performed market value benchmarking against comparable properties.

Valuation of inventories

Refer to note 22 to the consolidated financial statements and the accounting policies on page 98.

The key audit matter	How the matter was addressed in our audit
We identified the valuation of inventories as a key audit matter due to the use of judgements in identifying obsolete and slow moving inventories and determining the net realisable value ("NRV") which are based on conditions and the marketability of the inventories. NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs. As at 31 December 2020, the carrying amount of inventories is approximately RMB2,348,173,000, net of impairment provisions of approximately RMB134,570,000.	Our audit procedures were designed to evaluate the management's assessment of the conditions and the marketability of the obsolete and slow moving inventories and identify any valuation risk of inventories. We have assessed the reasonableness of the basis of determining the NRV and evaluate the condition and marketability of the inventories adopted by the management. We have tested the subsequent sales on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises 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 DIRECTORS OF THE COMPANY AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible 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, 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. 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Conclude on the appropriateness of the Company's 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 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 audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 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 Mr. Kwan Chi Fung.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Kwan Chi Fung
Practising Certificate Number: P06614

Hong Kong
19 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020**	2019
		RMB'000	*RMB'000*
Revenue	*7*	**12,743,437**	15,167,562
Cost of sales		**(11,781,282)**	(14,206,648)
Gross profit		**962,155**	960,914
Other income	*9*	**221,409**	172,943
Selling and distribution expenses		**(150,903)**	(146,061)
Administrative expenses		**(277,751)**	(279,758)
Other expenses		**(171,494)**	(21,084)
Finance costs	*10*	**(114,769)**	(145,850)
Share of (loss) profit of an associate		**(2,003)**	1,245
Profit before taxation		**466,644**	542,349
Income tax expenses	*11*	**(264,416)**	(326,674)
Profit and total comprehensive income for the year	*12*	**202,228**	215,675
Attributable to:			
Owners of the Company		**204,833**	218,338
Non-controlling interests		**(2,605)**	(2,663)
		202,228	215,675
Earnings per share attributable to owners of the Company			
Basic and diluted (RMB)	*16*	**0.17**	0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	17	**9,516,424**	10,418,785
Right-of-use assets	18	**382,387**	405,332
Investment properties	19	**54,901**	20,784
Other intangible assets	20	**60**	76
Interest in an associate	21	**73,973**	75,976
Deposits paid for acquisition of property, plant and equipment		**–**	16,458
Deferred tax assets	31	**98,804**	96,952
Total non-current assets		**10,126,549**	11,034,363
Current assets			
Inventories	22	**2,348,173**	2,765,713
Trade receivables	23	**352,653**	402,190
Deposits, prepayments and other receivables	24	**218,883**	239,828
Pledged deposits	25	**156,517**	107,782
Bank balances and cash	25	**11,258,148**	9,875,342
		14,334,374	13,390,855
Non-current assets classified as held for sale	17	**1,293**	1,271
Total current assets		**14,335,667**	13,392,126
Current liabilities			
Trade payables	26	**1,051,007**	1,371,593
Other payables and accruals	27	**1,082,586**	1,069,470
Lease liabilities	18	**14,178**	13,336
Contract liabilities	28	**242,146**	171,565
Income tax payable		**1,070,246**	1,039,214
Bank borrowings	29	**2,257,000**	2,109,350
Deferred income	30	**13,340**	15,609
Total current liabilities		**5,730,503**	5,790,137
Net current assets		**8,605,164**	7,601,989
Total assets less current liabilities		**18,731,713**	18,636,352

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020	2019
		RMB'000	*RMB'000*
Equity			
Share capital	*32*	**1,194,389**	1,194,389
Reserves		**17,348,949**	17,220,557
Equity attributable to owners of the Company		**18,543,338**	18,414,946
Non-controlling interests		**9,183**	11,788
Total equity		**18,552,521**	18,426,734
Non-current liabilities			
Lease liabilities	*18*	**48,415**	61,259
Deferred income	*30*	**129,478**	143,129
Deferred tax liabilities	*31*	**1,299**	5,230
Total non-current liabilities		**179,192**	209,618
Total equity and non-current liabilities		**18,731,713**	18,636,352

The consolidated financial statements on pages 78 to 164 were approved and authorised for issue by the board of directors on 19 March 2021 and are signed on its behalf by:

Zhang Hongxia
Director

Zhao Suwen
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital	Capital reserve	Statutory surplus reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000* (note)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	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 year	–	–	–	218,338	218,338	(2,663)	215,675
Final 2018 dividend declared (note 15)	–	–	–	(197,791)	(197,791)	–	(197,791)
At 31 December 2019 and 1 January 2020	**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 year	**–**	**–**	**–**	**204,833**	**204,833**	**(2,605)**	**202,228**
Final 2019 dividend declared (note 15)	**–**	**–**	**–**	**(76,441)**	**(76,441)**	**–**	**(76,441)**
At 31 December 2020	**1,194,389**	**6,692,394**	**1,845,222**	**8,811,333**	**18,543,338**	**9,183**	**18,552,521**

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	466,644	542,349
Adjustments for:		
Allowance on inventories	111,500	135,367
Amortisation of other intangible assets	16	15
Depreciation of investment properties	737	738
Depreciation of property, plant and equipment	826,520	986,337
Depreciation of right-of-use assets	24,461	23,642
Finance costs	114,769	145,850
Gain on disposal of non-current assets held for sale	(5,969)	(8,438)
Gain on disposal of property, plant and equipment	(2,300)	(11,809)
Government grant	(25,272)	(8,320)
Interest income for bank deposits	(31,277)	(33,126)
Impairment loss on property, plant and equipment	61,052	–
Loss allowance (reversal of loss allowance) on trade receivables	129	(588)
Loss allowance (reversal of loss allowance) on other receivables	89	(75)
Release of deferred income	(15,920)	(18,718)
Reversal of allowance for inventories	(834)	(528)
Share of loss (profit) of an associate	2,003	(1,245)
Operating cash flows before movements in working capital	1,526,348	1,751,451
Decrease in inventories	306,874	260,612
Decrease in trade receivables	49,408	30,052
Decrease (increase) in deposits, prepayments and other receivables	20,851	(46,019)
(Decrease) increase in trade payables	(320,586)	142,712
Increase (decrease) in other payables and accruals	13,362	(41,924)
Increase in contract liabilities	70,581	39,349
Cash generated from operations	1,666,838	2,136,233
Income tax paid	(239,167)	(292,395)
NET CASH FROM OPERATING ACTIVITIES	1,427,671	1,843,838

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 RMB'000	2019 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(44,459)**	(518,800)
Withdraw of pledged deposits	**(48,835)**	(5,318)
Proceeds from disposal of property, plant and equipment	**41,859**	25,124
Bank interest income received	**31,282**	32,583
Proceeds from disposal of non-current assets held for sale	**7,240**	13,522
Placement of pledged deposits	**100**	37,924
Deposit paid for acquisition of property, plant and equipment	**–**	(16,458)
NET CASH USED IN INVESTING ACTIVITIES	**(12,813)**	(431,423)
FINANCING ACTIVITIES		
New bank borrowings raised	**2,904,000**	2,483,350
Government grant received	**25,272**	8,320
Repayment of bank borrowings	**(2,756,350)**	(2,299,350)
Interest paid	**(115,015)**	(152,794)
Dividend paid	**(76,441)**	(197,791)
Payment of lease liabilities	**(13,518)**	(12,611)
Repayment of corporate bond	**–**	(962,755)
NET CASH USED IN FINANCING ACTIVITIES	**(32,052)**	(1,133,631)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,382,806**	278,784
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**9,875,342**	9,596,558
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**11,258,148**	9,875,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

Weiqiao Textile Company Limited (the "Company") is a limited company incorporated in the PRC. The registered office of the Company is located at No. 34, Qidong Road, Weiqiao Town, Zouping City, 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 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 operate (the functional currency of the principal subsidiaries).

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for its first time, the Amendements to References to the Conceptual Framework in HKFRSs and the following amendements to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning 1 January 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendements to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year 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 consolidated financial statements.

* For identification purpose only

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts and related Amendments[5]
Amendments to HKFRS 3	Reference to Conceptual Framework[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[5]
Amendments to HKAS 16	Property, plant and Equipment: Proceeds before Intend Use[3]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[3]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[1]
Amendment to HKFRS 16	COVID-19-Related Rent Concessions[4]
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018 – 2020 cycle[3]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 June 2020
5 Effective for annual periods beginning on or after 1 January 2023

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Company Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has:

- the power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Profit or loss of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to owners of the Company and to the non- controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Interest in an associate

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

The Group's interest in an associate is accounted for in the consolidated financial statements using the equity method. Under the equity method, interest in an associate is initially recognised at cost. The Group's share of the profit or loss of the associate are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of loss of an associate equals or exceeds its interest in the associate, which determined using the equity method together with any long-term interests that, in substance, form part of the Group's net interest in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

If an associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to make the associate's accounting policies conform to those of the Group when the associate's financial statement are used by the Group in applying the equity method.

After application of the equity method, including recognising the associate's losses, the Group determines whether there is an objective evidence that the net interest in the associate is impaired. The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset that forms part of the carrying amount of the net interest in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Gains and losses resulting from transactions between the Group and its associate are recognised in consolidated financial statements only to the extent of unrelated investors' interests in the associate. The Group's share in the associate's gains or losses resulting from these transactions is eliminated.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest in an associate (Continued)

The Group applies HKFRS 9 *Financial Instruments*, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee. In applying HKFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by HKAS 28 *Investments in Associates and Joint Ventures* (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with HKAS28).

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

The Group recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties, discounts and sales related taxes.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Contract assets and contract liabilities

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer. 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.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group recognised revenue from the following major sources:

- Sales of fabric products; and

- Sales of electricity and steam

Revenue from sales of fabric products is recognised at a point in time when the control of the goods is transferred to the customers. Control of the goods is considered transferred to customers at the time of delivery.

Revenue from sales of electricity and steam is recognised at a point in time when the resources are supplied to and consumed by the customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments).

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Definition of a lease (Continued)

The Group as lessee (Continued)

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item in the consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Lease modification

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its investment properties. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Definition of a lease (Continued)

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as prepaid lease payments in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits cost

Payments to the state-managed retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Current and deferred tax are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administration purpose other than construction in progress as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Ownership interests in leasehold land and buildings

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

For payments of ownership interest of properties which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land building elements, except for those that are classified and accounted for as investment properties.

Depreciation is recognised so as to write off the cost of assets over their estimated useful lives, using the straight line method for the property, plant and equipment. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production of goods or for administration purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Deprecation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties also include leased properties recognised by the Group as right-of-use asset and leased out under operating lease.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property held by the Group as a right-of-use asset is measured initially at cost in accordance with HKFRS 16.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

If an item of property, plant and equipment becomes an investment property when there is a change in use, the carrying amount of that item at the date of transfer is the deemed cost for subsequent accounting for that property as an item of investment property.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimates useful lives. The estimated reserves and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss.

Impairment on tangible assets including right-of-use assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the CGU) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the cost of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss ("FVTPL") are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("FVTOCI"), and FVTPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECL"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognised in profit or loss and is included in the "Other income" line item (note 9).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Group recognises a loss allowance for ECL on investments in debt instruments that are measured at amortised cost. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The ECL 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, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, 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. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular debtor, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor;
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default (Continued)

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written-off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 *Leases*.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not 1) contingent consideration of an acquirer in a business combination, 2) held-for-trading, or 3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement

When measuring fair value except net realisable value of inventories and value in use of property, plant and equipment for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets, liabilities, revenue and expenses reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The followings are the critical judgements, apart from those involving estimatations, that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Ownership of the buildings

Despite the Group has paid the full purchase consideration as detailed in note 17, formal titles of certain of the Group's rights to the use of the buildings were not granted from the relevant government authorities. In the opinion of the directors of the Company, the absence of formal title to these buildings does not impair the value of the relevant assets to the Group.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of property, plant and equipment, investment properties and right-of-use assets

The Group assesses whether there are any indicators of impairment for property, plant and equipment, investment properties and right-of-use assets at the end of each reporting period. Property, plant and equipment, investment properties and right-of-use assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or CGU and choose a suitable discount rate in order to calculate the present value of those cash flows.

As at 31 December 2020, the carrying amounts of property, plant and equipment, investment properties and right-of-use assets are approximately RMB9,516,424,000, RMB54,901,000 and RMB382,387,000 respectively (2019: RMB10,418,785,000, RMB20,784,000 and RMB405,332,000 respectively). Based on the estimated recoverable amounts, impairment loss of RMB61,052,000 (2019:nil) in respect of property, plant and equipment has been recognised while no impairment loss in respect of investment properties and right-of-use assets has been recognised (2019: nil) in profit or loss.

Estimated useful life of property, plant and equipment and investment properties

At the end of each reporting period, the directors of the Company review the estimated useful life of property, plant and equipment and investment properties with finite useful life. The estimated useful life reflects the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and investment properties. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The carrying amounts of property, plant and equipment and investment properties with finite useful life as at 31 December 2020 are RMB9,516,424,000 and RMB54,901,000 respectively (2019: RMB10,418,785,000 and RMB20,784,000 respectively).

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Allowance recognised in respect of trade and other receivables

The impairment provisions for trade and other receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to the consolidated statement of profit or loss and other comprehensive income. As at 31 December 2020, the carrying amounts of trade and other receivables of the Group are approximately RMB352,653,000 and RMB6,363,000 respectively (2019: RMB402,190,000 and RMB6,305,000 respectively), net of impairment losses of trade and other receivables are approximately RMB4,740,000 and RMB380,000 respectively (2019:RMB4,611,000 and RMB291,000 respectively).

Impairment loss recognised in respect of inventories

Management reviews the condition of the inventories of the Group and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The group carries out an inventory review at the end of each reporting period and makes provision for obsolete and slow-moving items. As at 31 December 2020, the carrying amounts of inventories were approximately RMB2,348,173,000 (2019: RMB2,765,713,000) (net of impairment provision of approximately RMB134,570,000 (2019: RMB143,175,000).

Income tax

As at 31 December 2020, no deferred tax asset has been recognised on the tax losses of approximately RMB2,715,506,000 (2019: RMB2,348,635,000) and deductible temporary difference of approximately RMB128,116,000 (2019: RMB139,864,000) respectively due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings disclosed in note 29 and cash and cash equivalent disclosed in note 25, and equity attributable to owners of the Group, comprising issued capital and reserves.

The directors of the Company review the capital structure periodically. As part of the review, the directors of the Company consider the cost of capital and the risks associated with each class of capital, and take appropriate actions to adjust the Group's capital structure. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through use of debts, payment of dividends and issuance of new shares.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2020	2019
	RMB'000	*RMB'000*
Financial assets		
At amortised cost	**11,774,502**	10,392,445
Financial liabilities		
At amortised cost	**4,231,277**	4,402,231

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, deposits and other receivables, pledged bank deposits, cash and cash equivalents, trade payables, other payables and accruals and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk

(i) Currency risk

The Group has foreign currency sales, purchases and bank loans of the Group in United States dollar ("US$"), which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2020	2019	**2020**	2019
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**1,732,190**	565,131	**263,763**	421,255

The Group is mainly exposed to USD.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2019: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2019: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2019: 5%) change in foreign currency rates. The sensitivity analysis includes bank loans where the denomination of the loan is in a currency other than the functional currency of the borrower.

A positive number below indicates an increase in post-tax profit for both years where RMB weakening 5% (2019: 5%) against US$. For a 5% (2019: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

Effect on post-tax profit:

	2020	2019
	RMB'000	*RMB'000*
US$	**55,066**	5,395

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 29). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Interest Rate quoted by the People's Bank of China arising from the Group's RMB denominated bank balances and bank borrowings and the fluctuation of London Interbank Offered Rate ("LIBOR") arising from the Group's US$ denominated bank balances and bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2020 would increase/decrease by approximately RMB82,226,000 (2019: RMB70,220,000). This is mainly attributable to the Group's exposure to interest rates on bank balances and variable-rate bank borrowings.

Credit risk

As at 31 December 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge all obligation by the counterperties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

The credit risk of the Group mainly arises from cash and cash equivalents and trade and other receivables. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on an collectively basis by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-trade related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 9% (2019: 7%) and 24% (2019: 27%) of the total trade receivables was due from the Group's largest external customer and the top five largest external customers respectively as at 31 December 2020 which excluded the immediate holding company and fellow subsidiaries.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase the Group compares the risk of a default occurring on the asset as at the reporting date with the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- external credit rating
- internal credit rating
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by independent rating agencies where available and, if not available, the operation management committee uses other publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL – not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL – credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written-off

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades:

				2020			2019		
	Notes	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount *RMB'000***	**Loss allowance *RMB'000***	**Net carrying amount *RMB'000***	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*	Net carrying amount *RMB'000*
Trade receivables	*23*	*(Note)*	Lifetime ECL (simplified approach)	**357,393**	**(4,740)**	**352,653**	406,801	(4,611)	402,190
Other receivables	*24*	Performing	12-month ECL	**5,905**	**(69)**	**5,836**	5,946	(59)	5,887
Other receivables	*24*	Doubtful	Lifetime ECL – not credit impaired	**838**	**(311)**	**527**	650	(232)	418
					(5,120)			(4,902)	

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 23 includes further details on the loss allowance for these assets respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on bank borrowings as a significant source of liquidity and the management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

Specifically, borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights within one year after the reporting date. The maturity analysis for other non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The table includes both interest and principal cash flow. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

	At 31 December 2020					
	Within one year or on demand	1-2 years	2-5 years	More than 5 years	Total contractual undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,051,007	–	–	–	1,051,007	1,051,007
Other payables and accruals	923,270	–	–	–	923,270	923,270
Bank borrowings	2,345,239	–	–	–	2,345,239	2,257,000
	4,319,516	–	–	–	4,319,516	4,231,277
Lease liabilities	17,541	16,547	32,179	6,737	73,004	62,593

	At 31 December 2019					
	Within one year or on demand	1-2 years	2-5 years	More than 5 years	Total contractual undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	1,371,593	–	–	–	1,371,593	1,371,593
Other payables and accruals	921,288	–	–	–	921,288	921,288
Bank borrowings	2,177,817	–	–	–	2,177,817	2,109,350
	4,470,698	–	–	–	4,470,698	4,402,231
Lease liabilities	17,337	16,725	38,009	15,739	87,710	74,595

Fair value measurement objective and policies

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors of the Company consider that the carrying amounts of current financial assets, current and non-current financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

7. 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 year is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of textile products		
• Cotton yarn	**3,721,815**	3,807,210
• Grey Fabric	**4,534,249**	5,397,236
• Denim	**388,633**	697,255
– Sales of electricity and steam	**4,098,740**	5,265,861
	12,743,437	15,167,562

Disaggregation of the Group's revenue

For the year ended 31 December 2020	**Textile products** ***RMB'000***	**Electricity and steam** ***RMB'000***	**Total** ***RMB'000***
Geographical market			
Mainland China	**5,898,868**	**4,098,740**	**9,997,608**
Hong Kong, China	**769,358**	**–**	**769,358**
East Asia region	**383,941**	**–**	**383,941**
Southeast Asia region	**398,640**	**–**	**398,640**
South Asia region	**949,434**	**–**	**949,434**
Others regions	**244,456**	**–**	**244,456**
	8,644,697	**4,098,740**	**12,743,437**

7. REVENUE (Continued)

Disaggregation of the Group's revenue (Continued)

For the year ended 31 December 2019	Textile products RMB'000	Electricity and steam RMB'000	Total RMB'000
Geographical market			
Mainland China	6,893,587	5,265,861	12,159,448
Hong Kong, China	934,901	–	934,901
East Asia region	348,207	–	348,207
Southeast Asia region	476,346	–	476,346
South Asia region	941,287	–	941,287
Others regions	307,373	–	307,373
	9,901,701	5,265,861	15,167,562

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

Transaction price allocated to the remaining performance obligations

All of the Group's remaining performance obligations for contracts with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

8. 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.

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

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.

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

For the year ended 31 December 2020

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	8,644,697	4,098,740	12,743,437
Intersegment revenue	–	701,609	701,609
Segment revenue	8,644,697	4,800,349	13,445,046
Eliminations			(701,609)
Group revenue			12,743,437
Segment (loss) profit	(271,304)	924,501	653,197
Unallocated income			221,409
Unallocated corporate expenses			(295,214)
Unallocated finance costs			(110,745)
Share of loss of an associate			(2,003)
Profit before taxation			466,644

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2019

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	9,901,701	5,265,861	15,167,562
Intersegment revenue	–	740,714	740,714
Segment revenue	9,901,701	6,006,575	15,908,276
Eliminations			(740,714)
Group revenue			15,167,562
Segment (loss) profit	(522,671)	1,263,023	740,352
Unallocated income			172,943
Unallocated corporate expenses			(230,980)
Unallocated finance costs			(141,211)
Share of profit of an associate			1,245
Profit before taxation			542,349

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit (loss) of each segment without allocation of central administration costs, directors' emoluments, other income, interest on bank borrowings and corporate bonds and share of results 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.

8. 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

	2020 RMB'000	2019 RMB'000
Textile products	6,105,331	7,552,953
Electricity and steam	6,610,359	6,506,696
Total segment assets	12,715,690	14,059,649
Interest in an associate	73,973	75,976
Corporate and other assets	11,672,553	10,290,864
Total assets	24,462,216	24,426,489

Segment liabilities

	2020 RMB'000	2019 RMB'000
Textile products	2,040,471	1,641,916
Electricity and steam	235,128	893,460
Total segment liabilities	2,275,599	2,535,376
Corporate and other liabilities	3,634,096	3,464,379
Total liabilities	5,909,695	5,999,755

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.

8. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2020

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets *(Note)*	29,233	33,200	–	62,433
Depreciation and amortisation	408,320	393,103	50,311	851,734
Impairment losses on property, plant and equipment	61,052	–	–	61,052
Reversal of allowances for inventories	(834)	–	–	(834)
Allowances for inventories	111,500	–	–	111,500
Loss allowance on trade receivables	129	–	–	129
Loss allowance on other receivables	89	–	–	89
Gain on disposal of property, plant and equipment	(2,300)	–	–	(2,300)
Gain on disposal of non-current assets classified as held for sale	(5,969)	–	–	(5,969)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(31,277)	(31,277)
Finance costs	3,972	52	110,745	114,769
Interest in an associate	–	–	73,973	73,973
Share of loss of an associate	–	–	2,003	2,003
Income tax expenses	–	–	264,416	264,416

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2019

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts include in the measure of segment profit or segment assets:				
Addition to non-current assets *(Note)*	269,488	258,258	–	527,746
Depreciation and amortisation	613,360	363,054	38,415	1,014,829
Reversal of allowances for inventories	(528)	–	–	(528)
Allowances for inventories	135,367	–	–	135,367
Reversal of loss allowance on trade receivables	(588)	–	–	(588)
Reversal of loss allowance on other receivables	(75)	–	–	(75)
Gain on disposal of property, plant and equipment	(11,809)	–	–	(11,809)
Gain on disposal of non-current assets held for sale	(8,438)	–	–	(8,438)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(33,126)	(33,126)
Finance costs	4,572	67	141,211	145,850
Interest in an associate	–	–	75,976	75,976
Share of profit of an associate	–	–	(1,245)	(1,245)
Income tax expense	–	–	326,674	326,674

Note: Non-current assets included property, plant and equipment, investment properties, right-of-use assets and other intangible assets.

8. SEGMENT INFORMATION (Continued)

Geographical information

During the years ended 31 December 2020 and 2019, the Group's operations are mainly located in the PRC.

Information about the Group's revenue from external customers is presented based on the location of the operations.

	Revenue from external customers	
	2020	2019
	RMB'000	*RMB'000*
Mainland China	**9,997,608**	12,159,448
Hong Kong, China	**769,358**	934,901
East Asia region	**383,941**	348,207
Southeast Asia region	**398,640**	476,346
South Asia region	**949,434**	941,287
Other regions	**244,456**	307,373
	12,743,437	15,167,562

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

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group is as follows:

	2020	2019
	RMB'000	*RMB'000*
Customer A[1]	**1,984,854**	2,585,363
Holding Company[1]	**1,702,005**	2,343,633

1 Revenue from sales of electricity and steam.

9. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Interest income from bank deposits	**31,277**	33,126
Release of deferred income	**15,920**	18,718
Government grants *(note 30)(note i)*	**25,272**	8,320
Compensation from suppliers on the supply of sub-standard goods	**15,084**	26,404
Exchange gain, net	**–**	10,206
Gain on sale of waste and spare parts	**117,716**	54,144
Gain on disposal of property, plant and equipment	**2,300**	11,809
Gain on disposal of non-current assets classified as held for sale	**5,969**	8,438
Gross rental income *(note ii)*	**7,384**	734
Reversal of loss allowance for trade and other receivables	**–**	663
Others	**487**	381
	221,409	172,943

Note: (i) The government grants are the income received from local government authorities for development scheme and salaries subsidies which were immediately recognised as other income for the year. There are no unfulfilled conditions and other contingencies attached to the receipts of those subsidies.

(ii) The related direct operating expenses of RMB664,000 (2019: RMB66,000) were incurred during the year ended 31 December 2020.

10. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on:		
– bank borrowings	**110,745**	88,259
– lease liabilities	**4,024**	4,639
– corporate bonds	**–**	52,952
	114,769	145,850

11. INCOME TAX EXPENSES

	2020	2019
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprises Income Tax ("EIT")	**270,199**	338,554
Over-provision in prior years:		
PRC EIT	**–**	(16)
Deferred taxation *(note 31)*	**(5,783)**	(11,864)
	264,416	326,674

Notes:

a) No Hong Kong Profits Tax has been provided for the years ended 31 December 2020 and 2019 as the Company did not have any assessable profits subject to Hong Kong Profits Tax.

b) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

11. INCOME TAX EXPENSES (Continued)

The income tax expenses can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2020 RMB'000	2019 RMB'000
Profit before taxation	466,644	542,349
Tax at the tax rate of 25%	116,661	135,587
Tax effect of share of result of an associate	501	(311)
Tax effect of expenses not deductible for tax purposes	17,866	10,365
Tax effect of income not taxable for tax purposes	(1,959)	(4,304)
Tax effect of utilisation of deductible temporary differences previously not recognised	(2,937)	(345)
Tax effect of tax losses not recognised	143,677	185,766
Utilisation of tax losses previously not recognised	(7,302)	(45)
Effect of preferential tax rate in the PRC	(2,192)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	101	(23)
Over-provision in prior years	–	(16)
Income tax expense for the year	264,416	326,674

Pursuant to the relevant laws and regulations in the PRC, the Company was accredited as high-tech enterprise during the year. It is entitled to the preferential tax rate of 15% for the year (2019: 25%).

12. PROFIT FOR THE YEAR

	2020	2019
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Directors', chief executive's and supervisors' emoluments *(note 13)*	**5,147**	5,190
Salaries, wages, allowances and other benefits	**2,693,228**	2,893,673
Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments)	**189,692**	251,819
Total staff costs	**2,888,067**	3,150,682
Auditor's remuneration	**5,808**	5,917
Depreciation of property, plant and equipment	**826,520**	986,337
Depreciation of right-of-use assets	**24,261**	23,642
Depreciation of investment properties	**737**	738
Exchange loss, net (included in other expenses)	**68,505**	–
Impairment loss on property, plant and equipment (included in other expenses)	**61,052**	–
Research and development cost *(Note)*	**377,411**	112,909
Amortisation of other intangible assets	**16**	15
Loss allowance (reversal of loss allowance) on trade receivables	**129**	(588)
Loss allowance (reversal of loss allowance) on other receivables	**89**	(75)
Allowance for inventories (included in cost of sales)	**111,500**	135,367
Reversal of allowance for inventories (included in cost of sales)	**(834)**	(528)
Amount of inventories recognised as an expense	**11,769,782**	14,066,444

Note: Staff costs of approximately RMB112,206,000 (2019: RMB37,534,000) are included in the research and development cost for the year ended 31 December 2020.

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

Details of directors', chief executive's and supervisors' emoluments are as follows:

	Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiaries undertaking	Emoluments paid or receivable in respect of directors' other services in connection with the management of the affairs of the Company and its subsidiaries undertaking		
	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2020				
Executive directors				
Ms. Zhang Hongxia	1,200	112	15	1,327
Ms. Zhang Yanhong	600	184	68	852
Ms. Zhao Suwen	600	87	15	702
Mr. Zhang Jinglei	300	80	15	395
Non-executive director				
Ms. Zhao Suhua	100	71	15	186
Independent non-executive directors				
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	505	–	–	505
Mr. Liu Yanzhao	150	–	–	150
	3,605	534	128	4,267
Chief executive:				
Mr. Wei Jiakun	600	86	15	701

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

	Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiaries undertaking	Emoluments paid or receivable in respect of directors' other services in connection with the management of the affairs of the Company and its subsidiaries undertaking		
	Fees	**Salaries, allowances and other benefits**	**Employer's contributions to retirement benefits scheme**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Supervisors:				
Ms. Wang Xiaoyun	30	–	–	30
Ms. Fan Xuelian	30	–	–	30
Ms. Bu Xiaoxia	30	74	15	119
	90	74	15	179
Total	4,295	694	158	5,147

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

	Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiaries undertaking	Emoluments paid or receivable in respect of directors' other services in connection with the management of the affairs of the Company and its subsidiaries undertaking		
	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2019				
Executive directors				
Ms. Zhang Hongxia	1,200	111	19	1,330
Ms. Zhang Yanhong	600	99	27	726
Ms. Zhao Suwen	600	88	17	705
Mr. Zhang Jinglei	300	81	18	399
Non-executive directors				
Mr. Zhang Shiping *(note i)*	50	–	–	50
Ms. Zhao Suhua	100	73	17	190
Independent non-executive directors				
Mr. Chen Shuwen	150	–	–	150
Mr. Liu Yanzhao	150	–	–	150
Mr. Chan Wing Yau, George	537	–	–	537
	3,687	452	98	4,237
Chief executive:				
Mr. Wei Jiakun	600	87	17	704
Supervisors:				
Ms. Wang Xiaoyun	30	49	17	96
Ms. Fan Xuelian	30	–	–	30
Ms. Bu Xiaoxia	30	75	18	123

13. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

	Emoluments paid or receivable in respect of a persons services as a director, whether of the Company or its subsidiaries undertaking	Emoluments paid or receivable in respect of directors' other services in connection with the management of the affairs of the Company and its subsidiaries undertaking		
	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	90	124	35	249
Total	4,377	663	150	5,190

Note i: Pass away on 23 May 2019

No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years end of the Company 31 December 2020 and 2019.

14. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments include four directors and the chief executive (2019: four directors and the chief executive) of the Company whose emoluments are set out in note 13. Their emoluments were within the following bands.

	2020 No. of employees	2019 No. of employees
RMBnil to RMB1,000,000	**4**	4
RMB1,000,001 to RMB 1,500,000	**1**	1

15. DIVIDENDS

	2020	2019
	RMB'000	*RMB'000*
2020 Proposed Final – RMB0.061 (2019 Final – RMB0.064) per share	**72,858**	76,441

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of RMB0.061 per share, amounting to a total of RMB72,858,000 (2019: RMB0.064 per share, amounting to a total of RMB76,441,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting. The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

16. EARNINGS PER SHARE

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

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**204,833**	218,338

	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,194,389,000**	1,194,389,000

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2020 and 2019.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST					
At 1 January 2019	7,158,781	16,275,491	290,682	20,532	23,745,486
Additions	2,761	28,698	627	492,171	524,257
Disposals	(11,446)	(115,105)	(2,080)	–	(128,631)
Reclassified as held for sale	–	(30,092)	(1,457)	–	(31,549)
Transfers	135,409	301,595	1,189	(438,193)	–
At 31 December 2019 and 1 January 2020	**7,285,505**	**16,460,587**	**288,961**	**74,510**	**24,109,563**
Additions	**2,934**	**14,640**	**9,475**	**33,868**	**60,917**
Disposals	**(25,413)**	**(63,739)**	**(3,758)**	**(17,421)**	**(110,331)**
Reclassified as held for sale	**–**	**(24,130)**	**–**	**–**	**(24,130)**
Transferred to investment properties	**(65,921)**	**–**	**–**	**–**	**(65,921)**
Transfers	**7,016**	**29,150**	**–**	**(36,166)**	**–**
At 31 December 2020	**7,204,121**	**16,416,508**	**294,678**	**54,791**	**23,970,098**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2019	1,682,597	10,990,668	176,770	–	12,850,035
Charge for the year	216,788	750,010	19,539	–	986,337
Eliminated on disposals	(3,658)	(109,665)	(1,993)	–	(115,316)
Reclassified as held for sale	–	(28,881)	(1,397)	–	(30,278)
At 31 December 2019 and 1 January 2020	**1,895,727**	**11,602,132**	**192,919**	**–**	**13,690,778**
Charge for the year	**222,552**	**579,591**	**24,377**	**–**	**826,520**
Eliminated on disposals	**(10,819)**	**(58,152)**	**(1,801)**	**–**	**(70,772)**
Reclassified as held for sale	**–**	**(22,837)**	**–**	**–**	**(22,837)**
Transferred to investment properties	**(31,067)**	**–**	**–**	**–**	**(31,067)**
Impairment loss recognised	**–**	**60,131**	**921**	**–**	**61,052**
At 31 December 2020	**2,076,393**	**12,160,865**	**216,416**	**–**	**14,453,674**
CARRYING VALUES					
At 31 December 2020	5,127,728	4,255,643	78,262	54,791	9,516,424
At 31 December 2019	5,389,778	4,858,455	96,042	74,510	10,418,785

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	10 to 40 years
Machinery and equipment	5 to 14 years
Others	5 to 14 years

The buildings are situated in PRC and held under medium lease term.

As at 31 December 2020, the Group's buildings, machinery and equipment with carrying values of approximately RMB181,624,000 (2019: RMB182,348,000) have been pledged to secure banking facilities granted to the Group.

The Group's idle machinery and equipment were valued individually by Wan Long (Shanghai) Assets Evaluation Co., Ltd. ("Shanghai Wan Long"), an independent professionally qualified valuer. Based on the valuation report, impairment loss of RMB61,052,000 was charged to profit or loss for the year ended 31 December 2020 (2019: nil). The recoverable amounts of these idle buildings, machinery and equipment were the fair value less costs of disposal. The fair values were measured by using Level 3 valuation techniques within the fair value hierarchy, which were estimated with reference to the market prices of similar assets after considering the conditions of these assets.

As at 31 December 2020, the Group was in the process of obtaining the certificates of ownership for buildings which carrying values of approximately RMB913,465,000 (2019: RMB947,394,000) from the relevant PRC government authorities. In the opinion of the directors of the Company, the absence of formal title to these properties does not impair their values to the Group as the Group has paid in full purchase consideration of these buildings and the probability of being evicted on the ground of an absence of formal title is remote.

Non-current assets classified as held for sale

At 31 December 2020 and 2019, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2020 and 2019 and expected to be fulfilled in 2021 and 2020 respectively.

18. LEASES

(i) Right-of-use assets

	2020 *RMB'000*	2019 *RMB'000*
Land	**378,410**	399,533
Buildings	**3,977**	5,799
	382,387	405,332

Right-of-use assets of RMB378,410,000 (2019: RMB399,533,000) represents land use rights located in the PRC. As at 31 December 2020, the Group is still in a process of obtaining the land certificate with the carrying amount of RMB168,660,000 (2019: RMB172,915,000). In the opinion of the directors, based on he advice from the Group's external legal adviser, the absence of the land certificate does not impair its carrying value to the Group.

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

Additions to the right-of-use assets for the year ended 31 December 2020 amounted to RMB1,516,000 (2019: RMB3,489,000), due to enter into a new lease agreement of building.

(ii) Lease liabilities

	2020 *RMB'000*	2019 *RMB'000*
Current	**14,178**	13,336
Non-current	**48,415**	61,259
	62,593	74,595

18. LEASES (Continued)

(ii) Lease liabilities (Continued)

Amounts payable under lease liabilities	**2020**	2019
	RMB'000	*RMB'000*
Within one year	**14,178**	13,336
After one year but within two years	**13,743**	13,430
After two years but within five years	**28,310**	33,257
After five years	**6,362**	14,572
	62,593	74,595
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(14,178)**	(13,336)
Amount due for settlement after 12 months	**48,415**	61,259

During the year ended 31 December 2020, the Group entered into a new lease agreement in respect of renting properties and recognised lease liabilities of RMB1,516,000 (2019: RMB3,489,000).

(iii) Amount recognised in profit or loss

	2020	2019
	RMB'000	*RMB'000*
Depreciation of right-of-use assets		
– Land	**9,397**	8,839
– Building	**15,064**	14,803
Interest expense on lease liabilities	**4,024**	4,639
Expense relating to short-term leases	**459**	459

(iv) Others

During the year ended 31 December 2020, the total cash outflow for lease amount to RMB18,001,000 (2019: RMB17,709,000).

At 31 December 2019, the Group is committed to RMB229,000 (2020: nil) for lease agreements not yet commenced.

19. INVESTMENT PROPERTIES

	Buildings *RMB'000*
COST	
At 1 January 2019, 31 December 2019 and 1 January 2020	32,327
Transferred from property, plant and equipment	65,921
At 31 December 2020	98,248
DEPRECIATION AND IMPAIRMENT	
At 1 January 2019	10,805
Charge for the year	738
At 31 December 2019 and 1 January 2020	11,543
Charge for the year	737
Transferred from property, plant and equipment	31,067
At 31 December 2020	43,347
CARRYING VALUES	
At 31 December 2020	54,901
At 31 December 2019	20,784

Investment properties are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	25 years

During the year ended 31 December 2020, certain owned properties with carrying values of approximately RMB34,854,000 (2019: nil) have been transferred to investment properties as these properties are held for rental income upon signing of lease agreements.

The investment properties of the Group are under operating leases and were valued by Shanghai Wan Long, an independent professionally qualified valuer, at 31 December 2020 and 2019.

Under the discounted cash flow method, a fair value of approximately RMB153,609,000 (2019: RMB32,864,000) is estimated using assumptions regarding the benefits and liabilities of ownership over the assets' life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the assets. The exit yield is normally separately determined and differs from the discount rate.

20. OTHER INTANGIBLE ASSETS

	Technology right	Software	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	12,002	1,740	13,742
AMORTISATION			
At 1 January 2019	12,002	1,649	13,651
Charge for the year	–	15	15
At 31 December 2019 and 1 January 2020	12,002	1,664	13,666
Charge for the year	–	16	16
At 31 December 2020	12,002	1,680	13,682
CARRYING VALUES			
At 31 December 2020	–	60	60
At 31 December 2019	–	76	76

Technology right and software are amortised on a straight-line basis over ten years.

21. INTEREST IN AN ASSOCIATE

	2020	2019
	RMB'000	*RMB'000*
Cost of investment in an associate – unlisted	67,500	67,500
Share of post acquisition profit and other comprehensive income, net of dividends received	6,473	8,476
	73,973	75,976

At 31 December 2020 and 2019, the Group had interest in the following associate:

Name of entity	Form of business	Principal place of operation and establishment	Proportion of ownership interest or participating shares held by the Group		Proportion of voting power held by the Group		Principal activities
			2020	2019	2020	2019	
威海市環翠區宏源小額貸款有限公司 Weihai Huancui District Hongyuan Microfinance Company Limited *	Incorporated	The PRC	45%	45%	45%	45%	Provision of finance and financial advisory services to small enterprises

The Group's investment in an associate is not individually material. The aggregate financial information and carrying amount of the Group's interest in that associate that is accounted for using the equity method are set out below.

	2020	2019
	RMB'000	*RMB'000*
Share of (loss) profit and total comprehensive (expense) income for the year	(2,003)	1,245

* *For identification purpose only*

22. INVENTORIES

	2020	2019
	RMB'000	*RMB'000*
Raw materials and consumables	**1,118,065**	1,117,880
Work-in-progress	**277,236**	318,104
Semi-finished goods	**297,361**	615,095
Finished goods	**655,511**	714,634
	2,348,173	2,765,713

As 31 December 2020, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB134,570,000 (2019: RMB143,175,000).

During the year ended 31 December 2020, an allowance for inventories of approximately RMB111,500,000 (2019: RMB135,367,000) has been recognised and included in cost of sales.

During the year ended 31 December 2020, there was a change in allowance of approximately RMB119,271,000 (2019: RMB112,153,000) for inventories due to the inventories subsequent sold at a price higher than the net realisable value during the year.

During the year ended 31 December 2020, there was an increase in the net realised value of finished goods due to market condition. As a result, a reversal of write-down of finished goods of approximately RMB834,000 (2019: RMB528,000) has been recognised and included in cost of sales during the year.

23. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Receivables at amortised cost comprise:		
Trade receivables	**357,393**	406,801
Less: loss allowance for trade receivables	**(4,740)**	(4,611)
	352,653	402,190

As at 31 December 2020, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB357,393,000 (2019: RMB406,801,000).

23. TRADE RECEIVABLES (Continued)

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers who have a long term relationship with the Group. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

The following is an aged analysis of trade receivables, net of loss allowance for trade receivables, presented based on the invoice date, which approximates revenue recognition date at the end of each reporting period.

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**350,636**	401,604
91 to 180 days	**1,392**	250
181 to 365 days	**290**	333
Over 365 days	**335**	3
	352,653	402,190

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the allowance based on past due status is not further distinguished between the Group's different customer bases.

23. TRADE RECEIVABLES (Continued)

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

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
As at 31 December 2020			
Within 3 months	**0.17%**	**351,233**	**597**
3 months to 1 year	**0.88%**	**1,697**	**15**
1 to 2 years	**2.33%**	**343**	**8**
Over 2 years	**100.00%**	**4,120**	**4,120**
		357,393	**4,740**

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
As at 31 December 2019			
Within 3 months	0.12%	402,087	483
3 months to 1 year	1.74%	593	10
1 to 2 years	11.51%	4	1
Over 2 years	100.00%	4,117	4,117
		406,801	4,611

23. TRADE RECEIVABLES (Continued)

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

	2020	2019
	RMB'000	*RMB'000*
At the beginning of the year	**4,611**	5,199
Loss allowance (reversal of loss allowance) recognised in profit or loss during the year	**129**	(588)
At the end of the year	**4,740**	4,611

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Prepayments to suppliers	**60,086**	45,574
Other taxes recoverable	**151,613**	187,123
Interest receivables	**789**	794
Deposits	**32**	32
Other receivables *(note i)*	**6,743**	6,596
	219,263	240,119
Less: loss allowance for other receivables	**(380)**	(291)
	218,883	239,828

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Note:

i) The Group measures the loss allowance for other receivables at an amount equal to 12-month ECL. The Group recognised 12-month ECL for other receivables based on the internal credit rating of receivables as follows:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
As at 31 December 2020			
Performing	**1.17%**	**5,905**	**69**
Doubtful	**37.11%**	**838**	**311**
		6,743	**380**

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
As at 31 December 2019			
Performing	0.99%	5,946	59
Doubtful	35.65%	650	232
		6,596	291

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

	2020 RMB'000	2019 RMB'000
At 1 January	**291**	366
Loss allowance (reversal of loss allowance) recognised in profit or loss during the year	**89**	(75)
At 31 December	**380**	291

25. PLEDGED DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposit

Pledged bank deposit represented deposits pledged to the bank to secure banking facilities granted to the Group.

Bank balances and cash

Bank balances earned interest at floating rates based on daily bank deposit rates which range from 1.1% to 1.5% per annum (2019: 0.2% to 1.2% per annum).

26. TRADE PAYABLES

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

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**893,929**	1,263,939
91 to 180 days	**8,836**	32,317
181 to 365 days	**32,949**	23,989
Over 365 days	**115,293**	51,348
	1,051,007	1,371,593

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

27. OTHER PAYABLES AND ACCRUALS

	2020	2019
	RMB'000	*RMB'000*
Payroll payable	391,122	380,109
Accrued staff benefits	404,126	414,432
Other taxes payable	159,316	148,182
Accrued distribution expenses	26,220	21,441
Deposit received	59,556	59,838
Interest payable	3,418	3,664
Other payables	38,828	41,804
	1,082,586	1,069,470

28. CONTRACT LIAIBLITIES

	2020	2019
	RMB'000	*RMB'000*
Sales of fabric products	170,488	119,653
Sales of electricity and steam	71,658	51,912
	242,146	171,565

Contract liabilities include advances received to deliver fabric products, electricity and steam.

In general, the Group receives certain percentage of the contract as advance payment from the customers upon signing of the sales contracts.

The significant change in contract liabilities in 2020 was mainly due to the increase in purchases order from customers in late 2020.

Revenue recognised during the year ended 31 December 2020 that was included in the contract liabilities as at 31 December 2019 is approximately RMB171,565,000 (2019: RMB132,216,000).

29. BANK BORROWINGS

	2020		
	Effective interest rate (%)	**Maturity**	**RMB'000**
Current			
Bank loans			
– Unsecured	**4.8-6.1**	**2021**	**1,752,000**
– Secured	**4.8**	**2021**	**505,000**
			2,257,000

	2019		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans			
– Unsecured	4.8-6.1	2020	1,704,000
– Secured	4.8-4.9	2020	405,350
			2,109,350

	2020	2019
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**2,257,000**	2,109,350

29. BANK BORROWINGS (Continued)

a) As at 31 December 2020 and 2019, all Group's bank loans are denominated in RMB.

b) As at 31 December 2020, certain of the Group's bank loans amounting to RMB505,000,000 (2019: RMB405,350,000) were secured by certain of the Group's buildings, machinery and equipment and right-of-use assets of an aggregate carrying value of approximately RMB181,624,000 and RMB54,516,000 respectively (2019: RMB182,348,000 and RMB56,955,000 respectively).

c) As at 31 December 2020, bank loans of approximately RMB450,000,000 and RMB1,807,000,000 (2019: RMB605,350,000 and RMB1,504,000,000) are variable-rate loans and fixed-rate loans respectively. The variable-rate loans carry effective interest rate ranging from 4.8% to 6.1% per annum (2019: 4.8% to 6.1% per annum) and the fixed-rate loans carry effective interest rate ranging from 4.8% to 5.2% per annum (2019: 4.8% to 4.9% per annum).

30. DEFERRED INCOME

	RMB'000
At 1 January 2019	177,456
Amortisation during the year	(18,718)
At 31 December 2019 and 1 January 2020	158,738
Amortisation during the year	(15,920)
At 31 December 2020	142,818

	2020	2019
	RMB'000	*RMB'000*
Analysed as:		
Current liabilities	**13,340**	15,609
Non-current liabilities	**129,478**	143,129
	142,818	158,738

Deferred income recognised in the consolidated statement of financial position, arising from the government grants received. The government grants were provided by local government for the purposes of providing support for the construction of new plants, product development, research activities and a pollution prevention project.

31. DEFERRED TAXATION

The following is the analysis of the deferred tax assets (liabilities), before set off certain deferred tax assets against deferred liabilities of the same taxable entity, for the financial reporting purposes:

	2020	2019
	RMB'000	*RMB'000*
Deferred tax assets	**98,804**	96,952
Deferred tax liabilities	**(1,299)**	(5,230)
	97,505	91,722

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

	Allowances and deferred income	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2019	85,711	(5,853)	79,858
Credit to profit or loss	11,241	623	11,864
At 31 December 2019 and 1 January 2020	96,952	(5,230)	91,722
Credit to profit or loss	1,852	3,931	5,783
At 31 December 2020	98,804	(1,299)	97,505

As at 31 December 2020, the Group has deductible temporary differences of RMB523,332,000 (2019: RMB527,672,000). Deferred tax assets of approximately RMB98,804,000 (2019: RMB96,952,000) has been recognised on approximately RMB395,216,000 (2019: RMB387,808,000). No deferred tax asset was recognised on the remaining amount of RMB128,116,000 (2019: RMB139,864,000) as it was uncertain that taxable profit would be available against which the deductible temporary differences can be utilised.

As at 31 December 2020, no deferred tax asset has been recognised on the tax losses of approximately RMB2,715,506,000 (2019: RMB2,348,635,000) due to the unpredictability of future profit streams.

As at 31 December 2020, the Group has tax losses of approximately RMB2,713,118,000 (31 December 2019: RMB2,346,892,000) that will be expired within next five years. The remaining tax losses of approximately RMB2,388,000 (2019: RMB1,743,000) may be carried forward indefinitely.

32. SHARE CAPITAL

	2020	2019
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	**780,770**	780,770
413,619,000 H shares of RMB1.00 each	**413,619**	413,619
	1,194,389	1,194,389

33. OPERATING LEASE COMMITMENT

The Group as lessor

Property rental income earned during the year was approximately RMB7,340,000 (2019: RMB734,000). The properties are expected to generate rental yields of 9.12% (2019: 2.27%) on an ongoing basis. All of the properties held have committed tenants for 1 to 20 years.

At the end of each reporting period, the Group had contracted with tenants for the following future minimum lease payments as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 1 year	**5,669**	734
After 1 year but within 2 years	**8,959**	734
After 2 years but within 5 years	**24,675**	734
After 5 years	**115,837**	–
	155,140	2,202

34. COMMITMENTS

	2020	2019
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the consolidated financial statements	**18,065**	17,184

35. PLEDGE OF ASSETS

At the end of the reporting period, the Group had pledged the following assets to banks to secure the banking facilities granted to the Group:

	2020	2019
	RMB'000	*RMB'000*
Property, plant and equipment	**181,624**	182,348
Right-of-use assets	**54,516**	56,955
Pledged deposits	**156,517**	107,782
	392,657	347,085

36. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

Save as disclosed elsewhere in the consolidated financial statements, during the year, the Group entered into transactions with related party as follows:

Related party	Nature of transaction	2020 *RMB'000*	2019 *RMB'000*
The Holding Company	Sales of electricity *(notes i and iii)*	**1,702,005**	2,343,633
	Expenses on land use rights and property leasing *(note i and vi)*	**17,674**	17,215
	Purchase of water *(note i and viii)*	**11,464**	20,293
	Sales of machineries *(note ii)*	**2**	–
Fellow subsidiaries	Gross rental income *(note i)*	**734**	734
	Gross rental income *(note ii)*	**43**	–
	Gross machineries rental income *(note ii)*	**174**	–
	Sales of textile products *(notes i and vii)*	**300,221**	384,466
	Processing of textile products *(notes i and ix)*	**926**	–
濱州市宏諾新材料有限公司 Binzhou City Hongnuo New Material Co., Limited* ("Binzhou Hongnuo") and its subsidiary	Purchases of steam *(note i and iv)*	**10,354**	17,518
鄒平縣宏利熱電有限公司 Zouping Country Hongli Thermal Power Co., Ltd* ("Hongli Thermal Power")	Purchases of steam *(note i and v)*	**3,611**	3,797

* For identification purpose only

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes:

(i) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the "Report of the Directors" section to the annual report.

(ii) The related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, or are exempted from the disclosures requirements in Chapter 14A of the Listing Rules in accordance with Rule 14A.76 of the Listing Rules and other requirements.

(iii) Electricity supply agreement with the Holding Company

Pursuant to the agreement, the benchmark price of excess electricity supplied to the Parent Group by the Group was RMB0.37 per kWh (VAT inclusive). Such benchmark price of excess electricity was determined on a cost-plus basis. The Company will charge the electricity price based on the actual cost for the generation of electricity by the Group plus an expected fixed gross profit of RMB0.10 per kWh (VAT inclusive), which was determined with reference to the gross profit margins of supply of excess electricity for the nine years ended 31 December 2018. The Company and the Holding Company agreed to calculate the actual settlement price of excess electricity at the day before the last day of each month. The actual settlement price of excess electricity in each month will be adjusted by RMB0.01 per kWh (VAT inclusive) on the basis of the benchmark price of excess electricity at every 5% fluctuation of the weighted average price of raw coal in such month over the benchmark price of raw coal. Details refer to the announcement dated 21 October 2019.

(iv) Steam purchase agreements with Binzhou Hongnuo

Pursuant to the agreement, Binzhou Weiqiao Technology Industrial Park Company Limited, a subsidiary of the Company, agreed to purchase steam from Binzhou Hongnuo, an indirectly wholly-owned subsidiary of 中國宏橋集團有限公司 China Hongqiao Group Limited ("Hongqiao Group"), a connected person of the Company, for production use, at a price of RMB170 per ton (including VAT), for the period from 1 January 2020 to 31 December 2022. Details refer to the announcement dated 21 October 2019.

(v) Steam purchase agreements with Hongli Thermal Power

Hongli Thermal Power is an indirectly wholly-owned subsidiary of Hongqiao Group.

On 21 October 2019, the Company made an announcement to disclose that 山東銘宏紡織科技有限公司 Shandong Minghong Textile Technology Company Limited* ("Minghong Textile"), a wholly-owned subsidiary of the Company, entered into a steam supply agreement with Hongli Thermal Power. Pursuant to the agreement, Minghong Textile will purchase steam from Hongli Thermal Power for production use, at a price of RMB150 per ton (including VAT), for the period from 1 January 2020 to 31 December 2022.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(vi) Lease agreements with the Holding Company

For the years ended 31 December 2020 and 2019, certain land use rights and properties of the Group were under lease agreements with the Holding Company, with a right of renewal exercisable by the Group. The rental expenses were charged on an annually fixed amount mutually agreed by the Group and the relevant parties.

(vii) Sales of textile product to the fellow subsidiaries

On 17 October 2017 and 10 November 2017, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (Supply of Cotton Yarn, Grey Fabric and Denim)". According to the announcement and the circular, the Company announced that, on 17 October 2017, it renewed the cotton yarn, grey fabric and denim supply agreement dated 21 October 2014 with a period of three years commencing on 1 January 2018 (the "Renewed Supply Agreement (Textile) 2017"). The Renewed Supply Agreement (Textile) 2017 agreed upon a new maximum aggregate annual value of textile products supplied.

Pursuant to the Renewed Supply Agreement (Textile) 2017, the Company will supply or procure its subsidiaries to supply cotton yarn, grey fabric and denim to the Holding Company, its subsidiaries other than the companies now comprising the Group and the associates of the Holding Company (collectively referred to as the "Holding Group").

The ultimate controlling shareholder of the fellow subsidiaries is the immediate controlling shareholder of the Company.

(viii) Production water supply agreement with the Holding Company

On 23 January 2019, the Company made an announcement to disclose that Huineng Thermal Power, a wholly-owned subsidiary of the Company, entered into a production water supply agreement with the Holding Company. Pursuant to the agreement, Huineng Thermal Power will purchase production water from the Holding Company for production use, at a price of RMB1.60 per ton (including VAT), for the period from 23 January 2019 to 31 December 2021.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(ix) Processing of textile products

The Company and the Holding Company entered into the entrusted processing service agreement ("Entrusted Processing Service Agreement") on 2 July 2020 for a term commencing on 2 July 2020 and ending on 31 December 2022 (both days inclusive), pursuant to which the Holding Company agreed to provide grey fabric processing services to the Company.

The processing fees of the processing services provided by the Holding Company to the Company shall be determined on a cost plus basis with reference to the cost of dye, grey fabric loss and the labour cost. The Holding Company has agreed that, in principle, the terms and conditions of the processing services offered by the Holding Company to the Company shall be no less favourable than the terms and conditions offered by the Holding Company to independent third parties in the PRC for providing the same or similar processing services on normal commercial terms in its ordinary and usual course of business. The Holding Company shall provide the evidence of such market prices to the Company upon the request by the Company. The annual caps under the Entrusted Processing Service Agreement for the period from 2 July 2020 to 31 December 2020 and the two financial years ending 31 December 2022 are RMB12,000,000 (exclusive of VAT), RMB24,000,000 (exclusive of VAT) and RMB24,000,000 (exclusive of VAT), respectively.

Further details of this continuing connected transaction are set out in the Company's announcement dated 2 July 2020.

36. RELATED PARTY TRANSACTIONS (Continued)

(b) Balances with related parties

Related party	Nature of balance	2020 RMB'000	2019 RMB'000
Holding Company	Trade receivables	**27,297**	27,333
	Other receivables	**1,796**	1,796

(c) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 33, the Group entered into sales agreements with certain fellow subsidiaries for sale commitments amounting to approximately RMB61,832,000 (2019: RMB15,928,000), which are expected to complete the transactions in early 2021.

(d) Compensation of key management personnel

The remuneration of directors of the Company and other members of key management personnel during the year was as follows:

	2020 RMB'000	2019 RMB'000
Short-term benefits	**4,990**	5,040
Post-employment benefits	**159**	150
	5,149	5,190

37. RETIREMENT BENEFIT SCHEME

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute to a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the year ended 31 December 2020, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB189,850,000 (2019: RMB251,969,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Interest payable *RMB'000*	**Bank borrowings** *RMB'000*	**Lease liabilities** *RMB'000*	**Total** *RMB'000*
At 1 January 2020	**3,664**	**2,109,350**	**74,595**	**2,187,609**
Financing cash flows:				
– Addition	**–**	**2,904,000**	**–**	**2,904,000**
– Repayment	**(115,015)**	**(2,756,350)**	**(13,518)**	**(2,884,883)**
Non-cash changes:				
– Accrued interest	**114,769**	**–**	**–**	**114,769**
– New lease recgonised	**–**	**–**	**1,516**	**1,516**
At 31 December 2020	**3,418**	**2,257,000**	**62,593**	**2,323,011**

	Interest payable *RMB'000*	Bank loans *RMB'000*	Corporate bonds *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2019	10,608	1,925,350	962,755	83,717	2,982,430
Financing cash flows:					
– Addition	–	2,483,350	–	–	2,483,350
– Repayment	(152,794)	(2,299,350)	(962,755)	(12,611)	(3,427,510)
Non-cash changes:					
– Accrued interest	145,850	–	–	–	145,850
– New lease recgonised	–	–	–	3,489	3,489
At 31 December 2019	3,664	2,109,350	–	74,595	2,187,609

39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		**467,918**	898,942
Right-of-use assets		**542**	23,343
Investment properties		**–**	26,476
Other intangible assets		**60**	76
Investments in subsidiaries	*(a)*	**11,089,091**	12,017,297
Deposits paid for acquisition of property, plant and equipment		**–**	16,458
Deferred tax assets		**1,487**	3,703
		11,559,098	12,986,295
Current assets			
Inventories		**236,717**	495,331
Trade receivables		**20,961**	123,108
Amounts due from subsidiaries	*(b)*	**566,841**	953,523
Deposits, prepayments and other receivables		**85,934**	97,073
Dividend receivables		**700,000**	900,000
Pledged deposits		**99,698**	96,864
Cash and cash equivalents		**10,624,184**	9,387,554
		12,334,335	12,053,453
Current liabilities			
Trade payables		**727,550**	641,688
Amounts due to subsidiaries	*(b)*	**3,175,623**	3,367,261
Other payables and accruals		**376,860**	414,937
Lease liabilities		**522**	3,786
Income tax payable		**21,059**	661,216
Bank borrowings		**1,552,000**	1,504,000
		5,853,614	6,592,888
Net current assets		**6,480,721**	5,460,565
Total assets less current liabilities		**18,039,819**	18,446,860

39. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	2020 RMB'000	2019 RMB'000
Equity			
Share capital		**1,194,389**	1,194,389
Reserves	(c)	**16,845,385**	17,232,345
Total equity		**18,039,774**	18,426,734
Non-current liability			
Lease liabilities		**45**	20,126
Total equity and non-current liability		**18,039,819**	18,446,860

Notes:

(a) As at 31 December 2020, investments in subsidiaries are carried at cost of approximately RMB12,887,445,000 (31 December 2019: RMB12,887,445,000), impairment loss of approximately RMB1,798,354,000 (2019: RMB870,148,000) in respect of investments in subsidiaries has been recognised in profit or loss.

(b) The amounts are trade nature, unsecured, interest-free and repayable on demand.

(c) Movements in reserves

	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2019	6,673,380	1,790,765	8,953,272	17,417,417
Profit and total comprehensive income for the year	–	–	12,719	12,719
Final 2018 dividend declared	–	–	(197,791)	(197,791)
At 31 December 2019 and 1 January 2020	**6,673,380**	**1,790,765**	**8,768,200**	**17,232,345**
Loss and total comprehensive expense for the year	**–**	**–**	**(310,519)**	**(310,519)**
Final 2019 dividend declared	**–**	**–**	**(76,441)**	**(76,441)**
At 31 December 2020	**6,673,380**	**1,790,765**	**8,381,240**	**16,845,385**

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2020 and 2019 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Direct		Indirect		Principal activities
			2020	2019	2020	2019	
威海魏橋紡織有限公司 Weihai Weiqiao Textile Company Limited*	PRC	RMB148,000,000	100%	100%	–	–	Production and sale of cotton yarn and fabric
Binzhou Industrial Park	PRC	RMB600,000,000	98.5%	98.5%	–	–	Production and sale of cotton yarn and fabric
山東魯藤紡織有限公司 Shandong Luteng Textile Company Limited*	PRC	RMB81,029,872	100%	100%	–	–	Production and sale of polyester yarn and related products
威海魏橋科技工業園有限公司 Weihai Weiqiao Technology Industrial Park Company Limited*	PRC	RMB760,000,000	100%	100%	–	–	Production and sale of cotton yarn and fabric
山東濱藤紡織有限公司 Shandong Binteng Textile Company Limited*	PRC	RMB127,712,481	100%	100%	–	–	Production and sale of compact yarn and related products
Weiqiao Textile (Hong Kong) Trading Company Limited	Hong Kong	HK$500,000	100%	100%	–	–	Trading of textile raw materials and products

* *For identification purpose only*

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Direct		Indirect		Principal activities
			2020	2019	2020	2019	
山東宏杰紡織科技有限公司 Shandong Hongjie Textile Technology Company Limited*	PRC	RMB1,460,000,000	100%	100%	–	–	Production and sale of cotton yarn and fabric
山東宏儒紡織科技有限公司 Shandong Hongru Textile Technology Company Limited*	PRC	RMB1,660,000,000	100%	100%	–	–	Production and sale of cotton yarn and fabric
山東銘宏紡織科技有限公司 Shandong Minghong Textile Technology Company Limited*	PRC	RMB580,000,000	100%	100%	–	–	Production and sale of cotton yarn and fabric
鄒平縣匯能熱電有限公司 Zuoping Country Huineng Thermal Power Company Limited*	PRC	RMB6,550,000,000	100%	100%	–	–	Production and sale of electricity
魏橋紡織貿易（上海）有限公司 Weiqiao Textile Trading (Shanghai) Company Limited*	PRC	RMB10,000,000	100%	–	–	–	Trading of textile raw materials and products
威海魏橋能源有限公司 Weihai Weiqiao Energy Company Limited*	PRC	RMB200,000,000	–	–	100%	–	Production and sale of electricity

None of the subsidiaries has issued any debt securities outstanding at the end of both years or at any time during both years.

* *For identification purpose only*