魏橋紡織股份有限公司

Weiqiao Textile Company Limited

(Stock Code : 2698)

2022 ANNUAL REPORT

CONTENTS

FINANCIAL HIGHLIGHTS

(Prepared in accordance with the HK GAAP)

COMPARISON OF KEY FINANCIAL DATA

Results

	For the year ended 31 December *(RMB'000)*				
	2018	2019	2020	2021	**2022**
Revenue	16,455,884	15,167,562	12,743,437	16,262,686	**16,573,668**
Gross profit	1,719,619	960,914	962,155	1,301,901	**1,016,202**
Gross profit margin (%)	10.5	6.3	7.6	8.0	**-6.1**
Profit before taxation	1,024,364	542,349	466,644	641,897	**-1,469,710**
Net profit attributable to the owners of the Company	643,906	218,338	204,833	614,187	**-1,557,643**
Net profit margin (%)	3.9	1.4	1.6	3.8	**-9.4**
Basic earnings per share (RMB)	0.54	0.18	0.17	0.51	**-1.3**

Assets and liabilities

	As at 31 December *(RMB'000)*				
	2018	2019	2020	2021	**2022**
Total assets	24,952,770	24,426,489	24,462,216	25,218,482	**25,504,185**
Equity	18,408,850	18,426,734	18,552,521	19,094,568	**17,316,919**
Total liabilities	6,543,920	5,999,755	5,909,695	6,123,914	**8,187,266**
Return on equity (1) (%)	3.5	1.2	1.1	3.2	**-9.0**
Current ratio (times)	2.1	2.3	2.5	2.9	**2.1**
Accounts receivable turnover (days)	9	10	11	10	**9**
Inventory turnover (days)	72	76	79	65	**63**
Accounts payable turnover (days)	27	33	38	26	**22**

Notes: (1) Calculated based on average equity.

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

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. 1, Wei Fang Road
Zouping Economic Development Zone
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 2022

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
17 March 2023

DATE OF ANNUAL GENERAL MEETING

30 May 2023


20
20
19

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 and its subsidiaries (collectively, the "Group") for the year ended 31 December 2022 (the "Year" or "Year under Review").

In 2022, being affected by a number of adverse factors such as the international trade frictions, complex geopolitical landscape and strong fluctuations in the prices of bulk commodities, the textile industry in China was confronted with a series of tough challenges, including sluggish market demands, disruptions to the supply chain, rising prices of bulk commodities as well as complexity in the international trade environment, resulting in greater pressure on the profitability of textile enterprises. Under the backdrop of a complex and challenging domestic and international environment, the textile industry in the PRC was subject to a challenging business environment, with approximately 21.4% of the industry players being loss-making, up by approximately 4.3 percentage points over last year. Faced with the complex domestic and international environment, the business and operation of the Group were also under great pressure.

During the Year, the Group proactively coped with market challenges, making strenuous efforts to ensure stable production and sales while maintaining its market share in the domestic and international markets. During the Year under Review, the Group recorded revenue of approximately RMB16,574 million, representing an increase of approximately 1.9% as compared with that of the corresponding period of last year. Net loss attributable to owners of the Company was approximately RMB1,558 million. Loss per share was approximately RMB1.30.

While endeavouring to maintain stable operations, the Group continued to step up efforts in technological innovation, upgrades in intelligentisation and green development. During the Year, the Group continuously enhanced the level of intelligentisation and digitalisation of its equipment by carrying out intelligentisation transformation of its existing equipment, so as to improve productivity. Moreover, the Group cooperated with a number of universities and scientific research institutes to promote collaboration with innovation industries and development of platforms of innovation, and carried out key technology research of smart textiles and relevant product research and development. A milestone success has been achieved in "Key Technologies and Applications in the Smart Manufacturing of Bacteriostatic

Textiles" (《抑菌紡織品智能製造關鍵技術及應用》), a collaborative engineering project with Donghua University in Shandong Province. The Group successfully developed high-performance knitted flame retardant fabric and a series of bacteriostatic fabric, etc., and successfully developed a patented technology to achieve domestic production of Lyocell pure-spinning high-count yarn. The Group has developed a fabric interwoven with Lyocell and polylactic acid, in an effort to develop green, low-carbon and environmentally-friendly products featured with regenerated cellulose fibre and bio-based materials.

During the Year, the Group was granted a series of honours and awards. In China, the Group was recognised as an "Advanced Group in the National Textile Industry" (全國紡織工業先進集體), the "National Priority Target of Manufacturing Brand" (國家製造品牌重點培育對象), the "National Leading Intellectual Property Enterprise" (國家知識產權優勢企業) and the "Model Enterprise for Technology Innovation at the Provincial Level" (省級技術創新示範企業).

Looking forward to 2023, due to the adverse factors such as geopolitical conflicts and international trade frictions, the development of the global economy will be faced with new challenges. Nevertheless, there are also some positive factors. Benefitting from the policies implemented to promote economic development by the Chinese government, the textile industry in China is poised to recover gradually.

In 2023, building on the foundation of its existing green and smart textile production lines, the Group will further push forward its transformation through digitalisation and intelligentisation to increase its average labour efficiency, thereby improving productivity. The Group will continue to strengthen cooperation with various professional colleges, universities and scientific research institutes for textile manufacturing, increase investments in technology research and development, enhance the synergetic development between the industry and the education sector, improve innovation capabilities, step up efforts in the research and development of functional fabrics and promote the optimisation and upgrading of its product portfolio.

CHAIRMAN'S STATEMENT

The management of Weiqiao Textile and I would like to express our sincere gratitude to the shareholders and business partners for their unwavering support towards the Group. The Group will continue to pursue new approaches to promote the development and upgrading of the textile industry through digital empowerment and green transformation, contributing to the sustainable development of the society. Meanwhile, the Group will continue to improve its product quality and foster new competitive strength, so as to increase its intrinsic value and maximise returns for the shareholders.

Ms. Zhang Hongxia
Chairman

Hong Kong
17 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

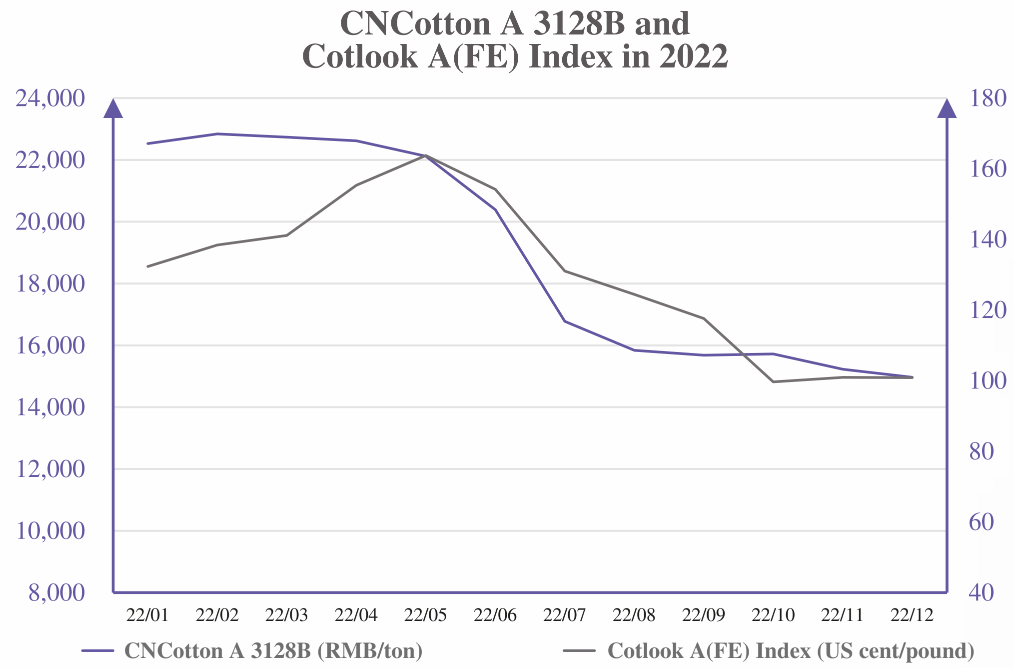
INDUSTRY REVIEW

During the Year under Review, being affected by the adverse factors such as the strong fluctuations in the raw material prices, international trade frictions and changes in the supply chain landscape, the textile industry in China was confronted with various challenges and the industry players were also under significant pressure in their operation.

In terms of domestic sales, according to the statistics from the National Bureau of Statistics of China, the retail sales of commodities such as apparel, footwear, headwear and knitted products by enterprises above the designated size for the Year amounted to approximately RMB1.3003 trillion, representing a year-on-year decrease of approximately 6.5%.

In terms of overseas sales, faced with pressure on multiple fronts such as shrinking demands and shift of orders, the growth in China's exports of textile products and apparel has decelerated. The amount of China's exports of textile products and apparel for the Year was approximately US$323.6 billion, representing a year-on-year increase of approximately 2.7%. The growth rate decreased by approximately 6.3 percentage points as compared to last year. (Data source: China Chamber of Commerce for Import and Export of Textiles)

In terms of textile raw materials, the domestic cotton prices maintained a downward trend throughout the Year with a year-on-year increase in the average price. In the meantime, the international cotton prices initially showed an upward trend before a subsequent fall. A substantial increase in average price was recorded as compared with the corresponding period of last year. During the Year under Review, CNCotton A 3128B recorded a highest price of approximately RMB22,843 per ton and a lowest price of approximately RMB14,969 per ton. The average price for CNCotton A 3128B was approximately RMB18,955 per ton for the Year, representing a year-on-year increase of approximately 6.4%. The Cotlook A(FE) recorded a highest price of approximately US164 cents per pound and a lowest price of approximately US100 cents per pound during the Year. The average price for Cotlook A(FE) was approximately US130 cents per pound, representing a year-on-year increase of approximately 28.5%. The movement of CNCotton A 3128B and Cotlook A(FE) Index during the Year was as follows:



Data source: China Cotton Association

In terms of the raw materials for generation of electricity, during the Year under Review, international energy prices continued to rise in a critical and complicated international environment, causing domestic coal prices to fluctuate in tandem at high levels, which resulted in greater pressure on energy costs.

MANAGEMENT DISCUSSION AND ANALYSIS

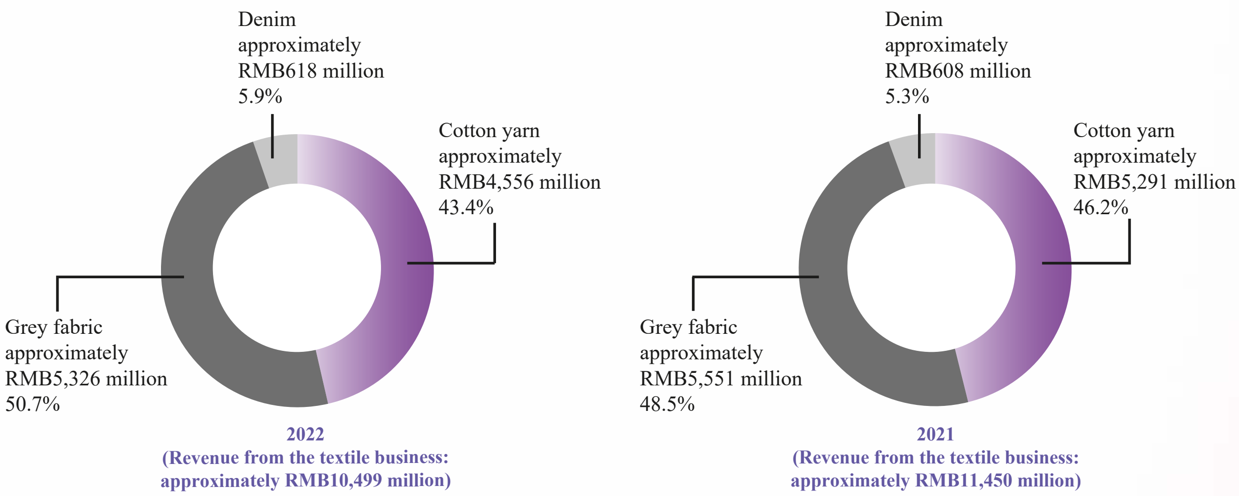
BUSINESS REVIEW

For the year ended 31 December 2022, the Group recorded revenue of approximately RMB16,574 million, representing an increase of approximately 1.9% as compared with the corresponding period of last year, where the revenue of textile products was approximately RMB10,499 million, representing a decrease of approximately 8.3% over the corresponding period of last year, which was mainly attributable to the prolonged weakness of the domestic and international textile market as a result of the impacts from adverse factors such as the international trade frictions and the changes in the supply chain landscape, leading to an overall decline in demand for textile products, which resulted in a corresponding decrease in purchase orders for the Group's cotton textile products and thus a year-on-year decrease in sales volume. The revenue of electricity and steam was approximately RMB6,074 million, representing a year-on-year increase of approximately 26.2%, which was mainly attributable to the upward adjustment of sales price of electricity by the Group according to the established electricity sales pricing mechanism due to the rising price of coal, which is the raw material, and the increasing demand for electricity from downstream customers. As such, there was also an increase in the sales volume.

For the year ended 31 December 2022, the net loss attributable to owners of the Company was approximately RMB1,558 million as compared to the net profit attributable to owners of the Company of approximately RMB614 million for the corresponding period of last year, which was mainly because on the textile business front, a substantial increase in the Group's production costs for its textile products was recorded due to the initial upward trend and the subsequent fall in the price of cotton lint (the major raw material for the Group's production of textile products) and the year-on-year increase in the average price of it, and an increase in staff costs as compared with the same period last year. Despite the slight year-on-year increase in the sales prices of the Group's products of cotton yarn and denim, the Group's textile business recorded a gross loss as such increase in sales price was exceeded by the extent of increase in the production costs and there was a year-on-year decrease in the sales price for grey fabric; and on the electricity business front, although the Group maintained profitability in the electricity business, since the price of coal, which is the major raw material, fluctuated at high price levels, there was a substantial increase in the electricity costs, thereby narrowing the gross profit margin.

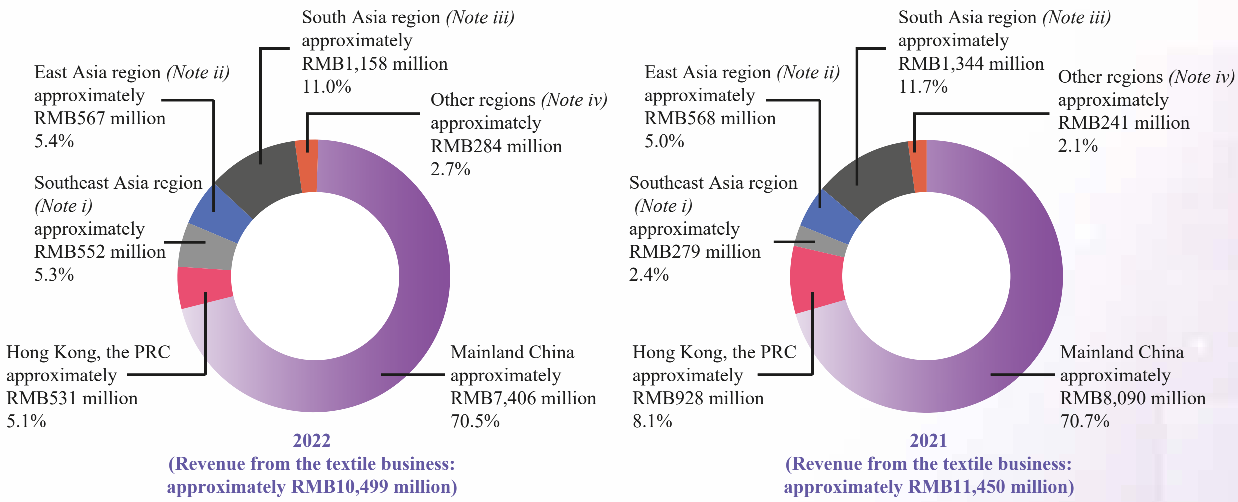
Textile Business

The charts below are the comparison of the breakdown of revenue of the Group's textile business according to the categories of products for the years ended 31 December 2022 and 2021, respectively:



For the year ended 31 December 2022, the revenue from the Group's cotton yarn, grey fabric and denim accounted for approximately 43.4%, 50.7% and 5.9% of the revenue from the textile business for the Year respectively, and revenue proportion of each of these three major categories of products showed insignificant changes as compared to that of the corresponding period of last year.

The charts below are the comparison of the breakdown of revenue of the Group's textile business by geographical location for the years ended 31 December 2022 and 2021, respectively:



Notes

i: *Southeast Asia region mainly includes Vietnam, Thailand, Malaysia, Indonesia, the Philippines and Burma;*

ii: *East Asia region includes Japan and South Korea;*

iii: *South Asia region includes Pakistan, Bangladesh and India; and*

iv: *Other regions mainly include the US, Europe, Africa and Taiwan, China.*

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2022, the Group continued to implement a sales strategy of placing equal emphasis on domestic and overseas sales, with overseas sales and domestic sales accounting for approximately 29.5% and approximately 70.5% of the revenue of textile business, respectively. There is no significant change in the proportion of overseas and domestic sales from that for the corresponding period of last year.

During the Year under Review, the Group adjusted the production plans in a timely manner based on the market demand for textile products. The output of the Group's cotton yarn was approximately 389,000 tons, representing a decrease of approximately 5.4% as compared with that for the corresponding period of last year; the output of grey fabric was approximately 697 million meters, representing a decrease of approximately 4.3% as compared with that for the corresponding period of last year; the output of denim was approximately 53 million meters, representing an increase of approximately 35.9% 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 operations of the Group remained stable and all production facilities were functioning in good conditions during the Year under Review.

Electricity and Steam Business

As at 31 December 2022, the installed capacity of the Group's thermal power assets amounted to 2,760 MW, which was in line with the installed capacity of the corresponding period of last year. The power generation amount of the Group for the Year was approximately 13,193,000,000 kWh, representing an increase approximately 8.0% as compared with that for the corresponding period of last year. The Group's electricity sales volume amounted to approximately 11,034,000,000 kWh, representing an increase of approximately 12.8% as compared to that for the corresponding period of last year, which was mainly attributable to the increase in demand for electricity from downstream customers during the Year, thereby contributing to a corresponding increase in electricity sales.

During the Year under Review, the average utilisation hours of the power generating units of the Group amounted to approximately 4,780 hours, representing an increase of approximately 352 hours as compared with approximately 4,428 hours recorded for the corresponding period of last year.

For the year ended 31 December 2022, the revenue from the Group's sales of electricity and steam amounted to approximately RMB6,074 million, representing an increase of approximately 26.2% as compared with that for the corresponding period of last year, which was mainly attributable to the fact that, on the one hand, the price of coal as its raw material, having fluctuated at high price levels, has caused the Group to increase the sales price of electricity in accordance with its established electricity sales pricing mechanism; and on the other hand, the sales volume of electricity of the Group also increased due to the increase in the demand for electricity from downstream customers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, Gross (Loss) Profit and Gross (Loss) Profit Margin

The table below is an analysis of the Group's revenue, gross (loss) profit and gross (loss) profit margin attributable to its major products for the years ended 31 December 2022 and 2021, respectively:

	For the year ended 31 December					
	2022			2021		
Product categories	**Revenue**	**Gross (loss) profit**	**Gross (loss) profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	**%**	*RMB'000*	*RMB'000*	%
Cotton yarn	**4,555,618**	**(504,522)**	**(11.1)**	5,290,988	652,812	12.3
Grey fabric	**5,325,722**	**(919,383)**	**(17.3)**	5,551,419	130,579	2.4
Denim	**617,983**	**6,008**	**1.0**	607,912	72,255	11.9
Electricity and steam	**6,074,345**	**401,695**	**6.6**	4,812,367	446,255	9.3
Total	**16,573,668**	**(1,016,202)**	**(6.1)**	16,262,686	1,301,901	8.0

For the year ended 31 December 2022, the gross loss from the sales of textile products of the Group was approximately RMB1,418 million. The gross loss margin was approximately 13.5%, which was mainly attributable to the substantial increase in the production costs for its textile products due to the initial upward trend and the subsequent fall in the price of cotton lint (the major raw material for the production of the Group's textile products), and the year-on-year increase in the average price of it, and the increase in staff costs as compared with that for the same period last year. Despite the slight year-on-year increase in the sales prices of the Group's cotton yarn and denim products, the Group's textile business recorded a gross loss as such increase in sales prices was exceeded by the sharp increase in the production costs and that there was a year-on-year decrease in sales price of grey fabric. The gross profit from the sales of electricity and steam of the Group decreased by approximately 9.9% from the corresponding period of last year to approximately RMB402 million, and the gross profit margin was approximately 6.6%, down by approximately 2.7 percentage points from that for the same period of last year, primarily because the price of coal, which is the major raw material, fluctuated at high price levels, and that there was a substantial increase in the electricity costs, thereby further narrowing the gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and Distribution Expenses

For the year ended 31 December 2022, the Group's selling and distribution expenses were approximately RMB240 million, representing an increase of approximately 6.2% as compared with approximately RMB226 million as recorded for the corresponding period of last year. Among these expenses, transportation costs increased by approximately 14.2% to approximately RMB161 million from approximately RMB141 million for the same period last year, which was mainly attributable to the increase in unit shipment costs during the Year. The salary for sales staff was approximately RMB32 million, representing a decrease of approximately 20.0% from approximately RMB40 million for the corresponding period of last year, which was mainly attributable to a decrease in domestic sales of the Group's textile products and the adjustment to the commission system for sales staff based on changes in the textile market during the Year. Sales commission was approximately RMB17 million, representing a decrease of approximately 10.5% from approximately RMB19 million for the corresponding period of last year, which was mainly due to the decrease in revenue from overseas sales of our textile products, resulting in the corresponding decrease in the commissions paid.

Administrative Expenses

For the year ended 31 December 2022, the administrative expenses of the Group were approximately RMB380 million, representing an increase of approximately 9.2% from approximately RMB348 million for the corresponding period of last year, which was primarily attributable to the further increase in salary and improvement in welfare benefits for the employees by the Group during the Year.

Other Expenses

For the year ended 31 December 2022, the other expenses of the Group were approximately RMB63 million, representing a decrease of approximately 82.1% from approximately RMB352 million for the corresponding period of last year, which was mainly attributable to (1) the expenses of approximately RMB145 million (exclusive of tax) incurred for the purchase of carbon emission quota by the Group in accordance with the requirements of the relevant policies during the corresponding period of last year; (2) the decrease of approximately RMB95 million in the provision for impairment on fixed assets made by the Group as compared to the corresponding period of last year; and (3) an exchange gain of approximately RMB56 million recorded by the Group as a result of fluctuations in the RMB/USD exchange rate during the Year while an exchange loss of approximately RMB47 million was recorded for the corresponding period of last year.

Finance Costs

For the year ended 31 December 2022, the finance costs of the Group were approximately RMB143 million, representing an increase of approximately 23.3% from approximately RMB116 million for the corresponding period of last year, which was primarily attributable to the increase in certain bank borrowings as the Group enhanced cooperation with financial institutions after taking into account the complex and changing macro market environment and the robustness of the Group's future development.

Income Tax Expenses

For the year ended 31 December 2022, the income tax expense of the Group was approximately RMB93 million, representing an increase of approximately 244.4% from approximately RMB27 million in 2021, which was mainly attributable to, on the one hand, the utilisation of tax losses carried forward from prior years; and on the other hand, the net profit recorded by the Company and some subsidiaries during the Year.

Net Loss Attributable to Owners of the Company and Loss per Share

The net loss attributable to owners of the Company for the year ended 31 December 2022 was approximately RMB1,558 million, while the net profit attributable to owners of the Company for the year ended 31 December 2021 amounted to approximately RMB614 million.

For the year ended 31 December 2022, the loss per share of the Company was approximately RMB1.30, while the earnings per share of the Company for the year ended 31 December 2021 was approximately RMB0.51.

Liquidity and Financial Resources

The working capital of the Group is mainly financed by cash inflow from operating activities and cash reserve. For the year ended 31 December 2022, the Group recorded a net cash outflow from operating activities of approximately RMB1,328 million, a net cash outflow for investing activities of approximately RMB524 million, and a net cash inflow for financing activities of approximately RMB1,688 million.

As at 31 December 2022, the cash and cash equivalents of the Group were approximately RMB11,402 million, representing a decrease of approximately 1.4% from approximately RMB11,566 million as at 31 December 2021, mainly attributable to the net cash outflow from operating activities and the net cash outflow from the investing activities of the Group during the Year.

For the year ended 31 December 2022, the average turnover days of the Group's receivables were 9 days, representing a decrease of 1 day as compared to 10 days of 2021, which showed no major changes as compared to the corresponding period of last year.

For the year ended 31 December 2022, the inventory turnover days of the Group were 63 days, representing a decrease of 2 days from 65 days for the last year, which was mainly attributable to the increase in production costs as compared with the corresponding period of last year while the amount of inventory remained basically the same.

For the year ended 31 December 2022, the Group did not use derivative financial instruments (2021: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The major objective of the Group's capital management is to ensure the ability of the Group to continue its operations and maintain a satisfactory capital ratio of the Group in order to support its business operations and maximise shareholders' interests.

As at 31 December 2022, the liabilities of the Group were mainly bank loans of approximately RMB4,811 million (31 December 2021: approximately RMB2,762 million). As at 31 December 2022, the Group's liability-to-asset ratio was approximately 32.1% (31 December 2021: approximately 24.3%).

As at 31 December 2022, all of the Group's bank borrowings were fixed interest rate borrowings.

The Group will further improve its fund management levels, with an aim to meet its capital expenditure requirements and further optimise its liabilities structure while maintaining sufficient liquidity of the Group.

As at 31 December 2022, the Group's borrowings were denominated in Renminbi while cash and cash equivalents were denominated in Renminbi, US dollars and Hong Kong dollars, of which cash and cash equivalents denominated in US dollars and Hong Kong dollars represented approximately 2.2% of the total amount.

Details of loans of the Group are set out in Note 29 to the consolidated financial statements.

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 2022, the Group had a total of approximately 38,000 employees, representing a decrease of approximately 2,000 employees as compared with that of last year. The decrease in the number of employees was mainly the normal employee turnover. Total staff costs of the Group during the Year amounted to approximately RMB3,666 million, representing an increase of approximately 7.8% from approximately RMB3,402 million as recorded for the corresponding period of last year, which was mainly attributable to the further increase in salary and improvement in welfare benefits by the Group for its employees during the Year.

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

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 2022, approximately 29.5% of the Group's revenue and approximately 19.0% of the costs for procurement of cotton were denominated in US dollars. For the year ended 31 December 2022, the Group recorded an exchange gain of approximately RMB56 million due to fluctuations in the RMB/USD exchange rate 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.

The Group does not currently have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange risks and will consider hedging significant foreign exchange risks where it is necessary.

Contingent Liabilities

As at 31 December 2022 and 2021, the Group did not have any significant contingent liabilities, respectively.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

During the year ended 31 December 2022, the Company did not have any material acquisition or disposal of subsidiaries, associates or joint ventures (2021: 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 2022 (2021: Nil).

Future Plans for Material Investments or Capital Assets

During the year ended 31 December 2022 and as of the date of this annual report, there was no plan approved by the Group for any material investments or capital assets (2021: Nil).

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2022 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.

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 2023, the external environment will be complex and challenging with the global economy subject to the risk of stagnation and an unstable foundation for recovery of the PRC economy. However, the enhanced endogenous forces for economic growth in China is expected to contribute to the domestic demands for the Chinese textile industry.

The Group will actively respond to government policies and step up efforts to promote industrial upgrading and innovation, so as to achieve high-quality development. On the sales front, the Group will keep a close watch on developments in the domestic and international arena and the industry, adhere to its strategy of placing equal emphasis on domestic sales and overseas sales, and make timely adjustments to its operation and sales strategies. On the production front, the Group will continue to enhance its automatic, intelligent and green productions and make continuous efforts to push forward technological innovation, with an aim to strengthen the Group's competitiveness. On the product front, being guided by market demands and giving full play to its advantages from the integration of industry, education, research and application, the Group will push forward the optimisation and upgrading of product portfolio.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 31 December 2022 and up to the date of this annual report, no material event affecting the Group has occurred.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Zhang Hongxia, aged 51, 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 2021. She had over 28 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 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 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 president of the fifth council of Shandong Textile and Apparel Association, the vice president of Shandong Association of Women Entrepreneurs, the chairman of Binzhou Textile Association, the president of Binzhou Association of Women Entrepreneurs, the vice president of Binzhou Entrepreneurs Association and the vice chairman of the 11th and 12th session of The Hong Kong General Chamber of Textiles. Ms. Zhang Yanhong is her younger sister.

Ms. Zhang Yanhong, aged 47, 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 joined the Company in November 2006 and was appointed as an executive Director of the Company. She was re-elected as an executive Director at the Company's annual general meeting held on 28 May 2021. She had over 22 years of management experience in the cotton textile industry. She joined the Group in 2000, and 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

Mr. Wei Jiakun, aged 55, an executive Director and general manager of the Company. He 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 was appointed as an executive Director at the annual general meeting of the Company held on 28 May 2021. He joined the Company's predecessor, Weiqiao Cotton Spinning Factory (位橋棉紡廠) in 1986 and had over 33 years of experience in cotton textile industry. He 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. Mr. Wei Jiakun is the elder bother of Ms. Zhao Suhua's husband.

Ms. Zhao Suwen, aged 48, 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. She 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 2021. She had over 29 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 46, 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 capital market 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 2021. 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 53, 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 2021. She had over 25 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. In addition, the elder brother of Ms. Zhao Suhua's husband is Mr. Wei Jiakun.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Wing Yau, George, aged 68, graduated from Waterloo University in Canada and obtained a bachelor degree in mathematics. He 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. (匯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 2021.

Mr. Chen Shuwen, aged 68, 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.SZ) (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.SH) (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.SH)) (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.SZ) (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 29 May 2020.

Mr. Liu Yanzhao, aged 49, 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 27 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. He 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 (山東省註冊稅務師管理中心) 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 re-elected as an independent non-executive Director at the Company's annual general meeting held on 28 May 2021.

SUPERVISORS

Ms. Wang Xiaoyun, aged 58, 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 28 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 2021.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Fan Xuelian, aged 52, 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, 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 re-elected as a shareholder representative supervisor of the Company at the annual general meeting of the Company held on 28 May 2021.

Ms. Bu Xiaoxia, aged 50, graduated from Shandong University (山東大學) in July 1994, 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 re-elected as a shareholder representative supervisor of the Company at the annual general meeting of the Company held on 28 May 2021.

SENIOR MANAGEMENT

Please refer to the disclosure in the "Executive Directors" section for the biographical details of Mr. Wei Jiakun, the general manager of the Company.

Please refer to the disclosure in the "Executive Directors" section for the biographical details of Ms. Zhao Suwen, the chief financial officer of the Company.

Please refer to the disclosure in the "Executive Directors" section for the biographical details of Mr. Zhang Jinglei, the company secretary of the 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 2022.

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 2022.

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

RESULTS

The operating results of the Group for the year ended 31 December 2022 and the consolidated financial position of the Group as at 31 December 2022 are set out in the audited consolidated financial statements on pages 79 to 81 in this annual report.

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

TAX DEDUCTION

The Company has not been aware of any tax deductions received by Shareholders for their holdings of Shares.

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 30 April 2023 (Sunday) to 30 May 2023 (Tuesday) (both dates inclusive), during which no transfer of shares will be registered. Shareholders whose names appear on the register of members of the Company on 30 April 2023 (Sunday) 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 of transfer of shares not later than 4:30 p.m. on 28 April 2023 (Friday).

REPORT OF THE DIRECTORS

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, 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.

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 2018, 31 December 2019 and 31 December 2020, and from the audited consolidated financial statements of the Group for the year ended 31 December 2021 and the year ended 31 December 2022 on pages 79 to 81 of this annual report is set out below:

Results

	For the year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	16,455,884	15,167,562	12,743,437	16,262,686	**16,573,668**
Cost of sales	(14,736,265)	(14,206,648)	(11,781,282)	(14,960,785)	**(17,589,870)**
Gross profit	1,719,619	960,914	962,155	1,301,901	**(1,016,202)**
Other income	164,981	172,943	221,409	381,048	**370,539**
Selling and distribution expenses	(166,246)	(146,061)	(150,903)	(225,762)	**(240,143)**
Administrative expenses	(277,490)	(279,758)	(277,751)	(347,918)	**(379,913)**
Other expenses	(40,143)	(21,084)	(171,494)	(352,319)	**(63,173)**
Finance costs	(376,475)	(145,850)	(114,769)	(116,306)	**(143,363)**
Share of profit of an associate	118	1,245	(2,003)	1,253	**2,545**
Profit before taxation	1,024,364	542,349	466,644	641,897	**(1,469,710)**
Income tax expenses	(381,504)	(326,674)	(264,416)	(26,992)	**(92,949)**
Profit and total comprehensive income for the year	642,860	215,675	202,228	614,905	**(1,562,659)**
Profit and total comprehensive income attributable to:					
Owners of the Company	643,906	218,338	204,833	614,187	**(1,557,643)**
Non-controlling interests	(1,046)	(2,663)	(2,605)	718	**(5,016)**
	642,860	215,675	202,228	614,905	**(1,562,659)**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	24,952,770	24,426,489	24,462,216	25,218,482	**25,504,185**
Total liabilities	6,543,920	5,999,755	5,909,695	6,123,914	**8,187,266**

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2022 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 2022 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 2022 are set out in Note 32 to the consolidated financial statements.

During the year ended 31 December 2022, 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 2022 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

CHARITABLE DONATIONS

During the year ended 31 December 2022, the Group made charitable donations of RMB13 million.

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2022 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 2022 are set out in Note 39 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, sales to the Group's five largest customers accounted for approximately 34.2% of the Group's total sales for the year ended 31 December 2022, while sales to its largest customer accounted for approximately 16.4% of the Group's total sales for the year ended 31 December 2022.

During the year ended 31 December 2022, purchases from the Group's five largest suppliers accounted for approximately 32.2% of the Group's total purchases for the year ended 31 December 2022, while purchases from the Group's largest supplier accounted for approximately 20.7% of the Group's total purchases for the year ended 31 December 2022.

The Holding Company was one of the five largest customers of the Group during the year ended 31 December 2022. 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 2022, 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 2022, 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 2022 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 2023
Ms. Zhang Yanhong	Until the date of annual general meeting for the year of 2023
Mr. Wei Jiakun	Until the date of annual general meeting for the year of 2023
Ms. Zhao Suwen	Until the date of annual general meeting for the year of 2023
Mr. Zhang Jinglei	Until the date of annual general meeting for the year of 2023

Non-executive Director:

Ms. Zhao Suhua	Until the date of annual general meeting for the year of 2023

Independent non-executive Directors:

Mr. Chan Wing Yau, George	Until the date of annual general meeting for the year of 2023
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 2023

Supervisors:

Ms. Wang Xiaoyun	Until 28 May 2024
Ms. Fan Xuelian	Until the date of annual general meeting for the year of 2023
Ms. Bu Xiaoxia	Until the date of annual general meeting for the year of 2023

Senior management:

Mr. Wei Jiakun (General manager)	Until 18 November 2023
Ms. Zhao Suwen (Chief Financial Officer)	Until 29 March 2025
Mr. Zhang Jinglei (Company Secretary)	Until 5 May 2025

REPORT OF THE DIRECTORS

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

Save as disclosed above, during the year ended 31 December 2022 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 26 in this report.

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 2022 or at the end of the year that is of significance to the business of the Group.

DIRECTORS' SUPERVISORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2022 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, controlling shareholders 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.

REPORT OF THE DIRECTORS

CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" in this annual report and Note 36 to the consolidated financial statements, during the year ended 31 December 2022, 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 2022, to the knowledge of the Directors, supervisors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had interests or short positions in the shares 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 i)*	**Approximate percentage of total issued domestic share capital as at 31 December 2022** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2022** *(%)*
Holding Company	757,869,600 (Long position)	97.07	63.45

Interests in the H shares of the Company:

Name of Shareholder	**Type of interest**	**Number of H shares** *(Note ii)*	**Approximate percentage of total issued H share capital as at 31 December 2022** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2022** *(%)*
Brandes Investment Partners, L.P.	Investment manager	41,333,000 (Long position) *(Note iii)*	9.99	3.46
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note iv)*	9.93	3.44

Notes:

i. Unlisted shares.

ii. Shares listed on the Main Board of the Stock Exchange.

iii. According to the disclosure of interests dated 11 May 2022 and published on the website of the Stock Exchange, these 41,333,000 H shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

iv. According to the disclosure of interests dated 2 July 2008 and published on the website of the Stock Exchange, 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 wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

REPORT OF THE DIRECTORS

Save as disclosed above, to the knowledge of the Directors, supervisors and the chief executive of the Company, as at 31 December 2022, 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.

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

As at 31 December 2022, 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)*	Approximate percentage of total issued domestic share capital as at 31 December 2022 *(%)*	Approximate percentage of total issued share capital as at 31 December 2022 *(%)*
Ms. Zhang Hongxia *(Executive Director/Chairman)*	Beneficial interest	17,700,400	2.27	1.48

Note: Unlisted shares

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 2022 *(%)*
Ms. Zhang Hongxia *(Executive Director/Chairman)*	Holding Company	Beneficial interest and spouse interest *(Note i)*	7.78 *(Note i)*
Ms. Zhang Yanhong *(Executive Director/Vice Chairman)*	Holding Company	Beneficial interest	4.50
Ms. Zhao Suhua *(Non-executive Director)*	Holding Company	Spouse interest *(Note ii)*	3.95 *(Note ii)*
Mr. Wei Jiakun *(Executive Director/General Manager)*	Holding Company	Beneficial interest	0.52
Ms. Zhao Suwen *(Executive Director/Chief Financial Officer)*	Holding Company	Beneficial interest	0.30

Notes:

i. Ms. Zhang Hongxia holds an aggregate of 7.78% equity interests of the Holding Company, of which 5.60% are directly held by Ms. Zhang Hongxia. The remaining 2.18% 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.

ii. Ms. Zhao Suhua is deemed to be interested in the 3.95% equity interests of the Holding Company held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at 31 December 2022, there was no 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.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

At no time during the year ended 31 December 2022 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 2022, which provides appropriate protection over certain legal actions brought against its Directors, supervisors and senior management.

CONNECTED TRANSACTIONS

During the year ended 31 December 2022, 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 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 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 five companies are subsidiaries of the Holding Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Zouping County Hongli Thermal Power Co., Ltd. (鄒平縣宏利熱電有限公司) ("Hongli Thermal Power"), Binzhou Lvdong Thermal Power Co., Ltd (濱州綠動熱電有限公司) ("Binzhou Lvdong") and Shandong Hongqiao New Material Co., Ltd.(山東宏橋新型材料有限公司) ("Shandong Hongqiao") 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, Binzhou Lvdong and Shandong Hongqiao 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 2022 are set out below. As stated in the relevant announcements, the Group has adopted well-defined pricing policies and guidelines for its continuing connected transactions and procedures for determining the price and terms of the transactions in accordance with such pricing policies and guidelines. The Company has complied with the relevant requirements under the Listing Rules.

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 production use by the Holding Company 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 renewed the cotton yarn, grey fabric and denim supply agreement for 3 times respectively on 20 October 2008, 31 October 2011 and 21 October 2014, for an extended term starting from 1 January 2009 to 31 December 2017. 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 for 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 for a term of three years commencing on 1 January 2021 and ending on 31 December 2023 (both dates inclusive). 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.

During the Year, the amount of cotton yarn, grey fabric and denim supplied by the Group to the Parent Group under the Renewed Supply Agreement was approximately RMB434 million, which was lower than the annual cap of approximately RMB720,000,000 (exclusive of VAT) in 2022.

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, 9 November 2020, 13 August 2021 and 2 September 2021, respectively.

REPORT OF THE DIRECTORS

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 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.

(2) 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.

(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 RMB2,000,000 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 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.

(6) 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.

(7) 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.

(8) A plant lease agreement entered into between the Company and the Holding Company on 1 May 2016 (the "Plant Lease Agreement A") 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 (the "Target Plant A") located at the southern side of Huixian One Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a lease agreement in respect of the Target Plant A (the "Old Plant Lease Agreement A") on 1 May 2019 for a term of three years from 1 May 2019 to 1 May 2022. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a lease agreement in respect of the Target Plant A (the "Renewed Plant Lease Agreement A") on 1 May 2022 for a term of three years from 1 May 2022 to 31 December 2024. The terms of the Renewed Plant Lease Agreement A are substantially the same as those of the Old Plant Lease Agreement A.

The Company has undergone a business restructuring in November 2020, as part of which, the Company transferred the right of use of the leased Target Plant A to Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (the "Binteng Textile"), a wholly-owned subsidiary of the Company. In order to reflect the above change, the Company, the Holding Company and the Binteng Textile entered into a tripartite rights and obligations transfer agreement dated 1 November 2020 (the "1st Tripartite Agreement of Target Plant A"), the principal terms of which provide that, the Binteng Textile shall lease the Target Plant A from the Holding Company from the effective date of such 1st Tripartite Agreement of Target Plant A and bear the rental incurred from the effective date of the 1st Tripartite Agreement of Target Plant A, while the rental incurred before the effective date of the 1st Tripartite Agreement of Target Plant A shall be borne by the Company.

The Binteng Textile has undergone a business restructuring in November 2021, as part of which, the Binteng Textile transferred the right of use of the leased Target Plant A to Shandong Hongjun Textile Company Limited (山東宏駿紡織有限公司) (the "Hongjun Textile"), a wholly-owned subsidiary of the Company. In order to reflect the above change, Binteng Textile, the Holding Company and the Hongjun Textile entered into a tripartite rights and obligations transfer agreement dated 1 November 2021 (the "2nd Tripartite Agreement of Target Plant A"), the principal terms of which provide that, the Hongjun Textile shall lease the Target Plant A from the Holding Company from the effective date of such 2nd Tripartite Agreement of Target Plant A and bear the rental incurred from the effective date of the 2nd Tripartite Agreement of Target Plant A, while the rental incurred before the effective date of the 2nd Tripartite Agreement of Target Plant A shall be borne by the Binteng Textile.

(9) A plant lease agreement entered into between the Company and the Holding Company on 1 January 2020 (the "Plant Lease Agreement B") 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 (the "Target Plant B") located at the southern side of Huixian One Road, Zouping Economic Development Zone, Zouping City, Shandong Province, the PRC.

The Company has undergone a business restructuring in November 2020, as part of which, the Company transferred the right of use of the leased Target Plant B to Binteng Textile, a wholly-owned subsidiary of the Company. In order to reflect the above change, the Company, the Holding Company and the Binteng Textile entered into a tripartite rights and obligations transfer agreement dated 1 November 2020 (the "1st Tripartite Agreement of Target Plant B"), the principal terms of which provide that, the Binteng Textile shall lease the Target Plant B from the Holding Company from the effective date of such 1st Tripartite Agreement of Target Plant B and bear the rental incurred from the effective date of the 1st Tripartite Agreement of Target Plant B, while the rental incurred before the effective date of the 1st Tripartite Agreement of Target Plant B shall be borne by the Company.

Pursuant to the renewal mechanism of such agreement, the Binteng Textile and the Holding Company entered into a lease agreement in respect of the Target Plant B (the "Old Plant Lease Agreement B") on 1 January 2021 for a term of one year commencing on 1 January 2021 and ending on 31 December 2021.

The Binteng Textile has undergone a business restructuring in November 2021, as part of which, the Binteng Textile transferred the right of use of the leased the Target Plant B to Hongjun Textile, a wholly-owned subsidiary of the Company. In order to reflect the above change, Binteng Textile, the Holding Company and the Hongjun Textile entered into a tripartite rights and obligations transfer agreement dated 1 November 2021 (the "2nd Tripartite Agreement of Target Plant B"), the principal terms of which provide that, the Hongjun Textile shall lease the Target Plant B from the Holding Company from the effective date of such 2nd Tripartite Agreement of Target Plant B and bear the rental incurred from the effective date of the 2nd Tripartite Agreement of Target Plant B, while the rental incurred before the effective date of the 2nd Tripartite Agreement of Target Plant B shall be borne by the Binteng Textile.

Pursuant to the renewal mechanism of such agreement, the Hongjun Textile and the Holding Company entered into a lease agreement in respect of the Target Plant B (the "Renewed Plant Lease Agreement B") on 1 January 2022 for a term of three years commencing on 1 January 2022 and ending on 31 December 2024. The terms under the Renewed Plant Lease Agreement B are basically the same as those under the Old Plant Lease Agreement B.

(10) An office lease agreement (the "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. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an office lease agreement on 31 January 2016 for a term commencing from 1 February 2016 and ending on 1 February 2019. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an office lease agreement (the "Old Office Lease Agreement") on 31 January 2019 for a term of three years commencing from 1 February 2019 and ending on 1 February 2022 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into an office lease agreement (the "Renewed Office Lease Agreement") dated 31 January 2022 for a term of three years commencing from 1 February 2022 and ending on 1 February 2025 (both dates inclusive). The terms and conditions of the Renewed Office Lease Agreement are substantially the same as those of the Old Office 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 renewed the excess electricity supply agreement 3 times respectively on 4 November 2010, 1 November 2013 and 26 October 2016, for an extended term starting from 1 January 2011 to 31 December 2019. 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 21 October 2019 for a term commencing from 1 January 2020 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 an excess electricity supply agreement (the "Renewed Excess Electricity Supply Agreement") on 30 September 2022 for a term commencing from 1 January 2023 and ending on 31 December 2025 (both dates inclusive), pursuant to which the Group agreed to continue to supply excess electricity to the Parent Group for production use by the Parent Group. Except for the pricing basis, the 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.

During the term of the Renewed Excess Electricity Supply Agreement, the benchmark price of the supply of excess electricity to the Parent Group shall be the monthly local state grid selling price of the month. Having considered that: (i) the Parent Group is a long-term large and stable customer of the Company, and (ii) the Company sells excess electricity to the Parent Group by way of direct supply, with the benefit of short distribution distance and low energy loss, the Group will offer a 10% discount to the Parent Group and such discount is also applied to the independent third party large customers. During the term of the Renewed Excess Electricity Supply Agreement, if the monthly local state grid selling price of any month is adjusted from that of the previous month, the settlement price for that month shall be calculated based on the then effective monthly local state grid selling price, with a 10% discount. If any applicable mandatory benchmark price for the supply of electricity is prescribed by the PRC government under the relevant PRC laws and regulations, the benchmark price shall be adjusted accordingly.

During the Year, the amount of excess electricity supplied by the Group to the Parent Group under the Old Excess Electricity Supply Agreement was approximately RMB2,341 million, which was lower than the annual cap of approximately RMB3,124,232,000 (exclusive of VAT) in 2022.

Further details of this continuing connected transaction are set out in the Company's announcements and circulars dated 18 March 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, 11 November 2019, 30 September 2022 and 24 October 2022, respectively.

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. On 20 October 2017, such steam supply agreement was terminated by the Holding Company by providing the Company with an written notice in relation to early termination of supply of steam for production use pursuant to the termination terms asset 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 for a term from 20 October 2017 to 31 December 2019 (both days inclusive). Pursuant to the renewal terms of such agreement, Shandong Hongqiao and the Company entered into the weiqiao steam supply agreement (the "Old 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). In order to streamline the arrangements among entities and reduce administrative costs, on 28 December 2022, Shandong Hongqiao and the Company entered into a steam supply agreement (the "Steam Supply Agreement"), pursuant to which, Shandong Hongqiao (including its group members) agreed to supply steam to the Company (including its subsidiaries) for a term of three years from 1 January 2023 to 31 December 2025 (both days inclusive). Terms and conditions under the Steam Supply Agreement are basically the same as the terms and conditions under the Old Weiqiao Steam Supply Agreement.

The price of steam to be supplied by Shandong Hongqiao to the Company shall be RMB246 per ton (VAT inclusive), which is determined by reference to the prices at which the same or comparable types of steam used for production are supplied by Shandong Hongqiao to any independent third parties on normal commercial terms in its ordinary and usual course of business. Shandong Hongqiao shall provide the evidence of such market prices to the Company upon its request. In the event there is a significant change in the market price of coal during the term of the Steam Supply Agreement, Shandong Hongqiao is entitled to adjust the price of steam based on the change in the cost of supplying steam, and the transaction amount shall be settled based on the adjusted price accordingly. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted for the purpose of the Steam Supply Agreement.

During the Year, the values for supply of the steam for production use by Hongli Thermal Power to Ming Hong Textile pursuant to the Old Weiqiao Steam Supply Agreement amounted to approximately RMB3,677,000, which is lower than the 2022 annual cap of approximately 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, 21 October 2019 and 28 December 2022.

Supply of Steam for Production Use by Binzhou City Hongnuo and its subsidiaries 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 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 "Old 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). In order to streamline the arrangements among entities and reduce administrative costs, on 28 December 2022, Shandong Hongqiao and the Company entered into the Steam Supply Agreement, pursuant to which, Shandong Hongqiao (including its group members) agreed to supply steam to the Company (including its subsidiaries) for a term of three years from 1 January 2023 to 31 December 2025 (both days inclusive). Terms and conditions under the Steam Supply Agreement are basically the same as the terms and conditions under the Old Binzhou Steam Supply Agreement.

The price of steam to be supplied by Shandong Hongqiao to the Company shall be RMB246 per ton (VAT inclusive), which is determined by reference to the prices at which the same or comparable types of steam used for production are supplied by Shandong Hongqiao to any independent third parties on normal commercial terms in its ordinary and usual course of business. Shandong Hongqiao shall provide the evidence of such market prices to the Company upon its request. In the event there is a significant change in the market price of coal during the term of the Steam Supply Agreement, Shandong Hongqiao is entitled to adjust the price of steam based on the change in the cost of supplying steam, and the transaction amount shall be settled based on the adjusted price accordingly. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted for the purpose of the Steam Supply Agreement.

During the Year, the values for supply of the steam for production use by Binzhou City Hongnuo and its subsidiaries to Binzhou Industrial Park pursuant to the Old Binzhou Steam Supply Agreement amounted to approximately RMB10,453,000, which is lower than the 2022 annual cap of approximately 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, 21 October 2019 and 28 December 2022.

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 "Old Production Water Supply Agreement") for a term commencing on 23 January 2019 and ending on 31 December 2021. Pursuant to the renewal mechanism of such agreement, Huineng Thermal Power and the Holding Company entered into a production water supply agreement (the "Renewed Production Water Supply Agreement") dated 23 December 2021, for a term commencing on 1 January 2022 and ending on 31 December 2024. Pursuant to this, the Holding Company agreed to continue to supply production water to Huineng Thermal Power for production use. Terms and conditions under the Renewed Production Water Supply Agreement are basically the same as the terms and conditions under the Old Production Water Supply Agreement.

During the period from 1 January 2022 to 31 December 2022, the price of production water supplied by the Holding Company to Huineng Thermal Power was approximately RMB1.99 per ton (VAT exclusive), which was determined with reference to the market price of production water supplied by other independent third parties in Zouping City. According to the relevant water resource policy promulgated by the Binzhou local government in 2021, progressive charging system was implemented to the excess volume of water consumed by non-residents, and in consideration of the condition of local water supply, the Holding Company will also include a proportion of other non-local water resources, leading to an increase in water supply costs as compared with those of the previous years. The Holding Company shall provide the evidence of such market price to Huineng Thermal Power upon the its request. If the price is otherwise mandatorily regulated by the PRC government, the mandatory governmental price shall be adopted for the purpose of the Production Water Supply Agreement.

During the Year, the values for supply of production water by the Holding Company to Huineng Thermal Power pursuant to the Renewed Production Water Supply Agreement amounted to approximately RMB16,000,000, which is lower than the 2022 annual cap of approximately RMB17,913,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the Company's announcements dated 23 January 2019 and 23 December 2021.

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

Due to business restructuring of the Holding Company, the right of use of the leased Target Plants C 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 "1st Tripartite Agreement of Target Plants C") to reflect the foresaid change. The principal terms of the 1st Tripartite Agreement of Target Plants C provide that Hengfu Knitting as the new lessee shall lease the Target Plants C from the Company from the effective date of the 1st Tripartite Agreement of Target Plants C and bear the rental incurred from the effective date of the 1st Tripartite Agreement of Target Plants C, while the rental incurred before the effective date of the 1st Tripartite Agreement of Target Plants C 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 C to Hongru Textile. On 1 May 2016, the Company, Hongru Textile and Hengfu Knitting entered into the tripartite agreement (the "2nd Tripartite Agreement of Target Plants C") to reflect the aforesaid change. The principal terms of the 2nd Tripartite Agreement of Target Plants C provide that Hongru Textile as the new lessor shall lease the Target Plants C to Hengfu Knitting from the effective date of the 2nd Tripartite Agreement of Target Plants C and receive the relevant rental accrued from the effective date of the 2nd Tripartite Agreement of Target Plants C, while the Company shall be entitled to receive the rental accrued before the effective date of the 2nd Tripartite Agreement of Target Plants C.

Pursuant to the renewal mechanism of this agreement, Hongru Textile and Hengfu Knitting entered into a production 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 such agreement, Hongru Textile and Hengfu Knitting entered into a production plant lease agreement (the "Old Plant Lease Agreement C") on 1 January 2020 for a term of three years commencing on 1 January 2020 and ending on 31 December 2022. Pursuant to the renewal mechanism of such agreement, Hongru Textile and Hengfu Knitting entered into a production plant lease agreement (the "Renewed Plant Lease Agreement C") on 1 January 2023 for a term of three years commencing on 1 January 2023 and ending on 31 December 2025. Terms and conditions under the Renewed Plant Lease Agreement C are basically the same as the terms and conditions under the Old Plant Lease Agreement C.

REPORT OF THE DIRECTORS

Product Processing Service Provided 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.

During the Year, the values for production processing services provided by Holding Company to the Company pursuant to the Entrusted Processing Service Agreement amounted to approximately RMB3,160, which is lower than the 2022 annual cap of approximately RMB24,000,000 (exclusive of VAT).

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

Purchase of Fabrics, Knitted Fabrics, Apparel and Home Textile Products by the Group from the Parent Group

On 17 May 2021, the Company and the Holding Company entered into a fabrics, knitted fabrics, apparel and home textiles products supply agreement (the "Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement") for a term commencing on 17 May 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Holding Company agreed to supply or procure its subsidiaries to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Group.

The prices of fabrics, knitted fabrics, apparel and home textiles products to be supplied by the Holding Company to the Group shall be determined with reference to the prices at which the same or comparable types of fabrics, knitted fabrics, apparel and home textiles products are supplied by the Holding Company to independent third parties on normal commercial terms in its ordinary and usual course of business in the PRC. The Holding Company shall provide the evidence of such market prices to the Group upon the request of the Group.

During the Year, the values for supply of fabrics, knitted fabrics, apparel and home textiles products by Holding Company to the Company pursuant to the Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement amounted to approximately RMB43,379,000 which is lower than the 2022 annual cap of approximately RMB60,000,000 (exclusive of VAT).

Further details of this continuing connected transaction are set out in the Company's announcement dated 17 May 2021.

Figures for the Year Ended 31 December 2022

Below is a table setting out the aggregate value for each of the above-mentioned continuing connected transactions for the year ended 31 December 2022:

	Transaction nature	Aggregate value for the year ended 31 December 2022 (RMB'000)
1.	Supply of cotton yarn, grey fabric and denim by the Group to the Parent Group	433,987
2.	Supply of excess electricity by the Company to the Holding Company	2,340,737
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	16,859
5.	Supply of steam for production use by Hongli Thermal Power to Ming Hong Textile	3,677
6.	Supply of water for production use by the Holding Company to Huineng Thermal Power	15,550
7.	Supply of steam for production use by Binzhou Lvdong Thermal Power Co., Ltd to Binzhou Industrial Park (Note)	10,453
8.	Product processing service provided by the Holding Company entrusted by the Company	3
9.	Purchase of fabrics, knitted fabrics, apparel and home textile products by the Group from the Parent Group	43,379

Note: This company was a wholly-owned subsidiary of Binzhou City Hongnuo, a party to the Renewed Binzhou Steam Supply Agreement, at the time when such agreement was entered into on 21 October 2019.

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.

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.

REPORT OF THE DIRECTORS

The auditors of the Company have provided a letter to the Board confirming that, for the year ended 31 December 2022, 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 2022, 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. During the year ended 31 December 2022, the Company had complied with all code provisions as set out in the CG Code.

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 17 March 2023 and has reviewed the Group's annual results and financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW AND OUTLOOK

The business review and outlook of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 12 to 14 and page 21.

KEY RISKS AND UNCERTAINTIES

The key risks and uncertainties to which the Group is exposed were included in the Management Discussion and Analysis in this annual report on page 19.

ENVIRONMENTAL POLICIES

The environmental policies of the Group for the Year is included in the Management Discussion and Analysis in this annual report on page 20.

COMPLIANCE WITH LAWS AND REGULATIONS

The compliance with laws and regulations of the Group for the Year is included in the Management Discussion and Analysis in this annual report on page 20.

RELATIONSHIP WITH KEY STAKEHOLDERS

The relationship with key stakeholders (including employees, suppliers and customers) of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 20 and 21.

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited was the Company's international auditor for the year ended 31 December 2022. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as the international auditor of the Company will be proposed at the 2022 annual general meeting of the Company.

On Behalf of the Board

Ms. Zhang Hongxia
Chairman

Shandong, the PRC
17 March 2023

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2022, 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 2022 is reported as follows:

1. Work of the Supervisory Committee

In 2022, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 11 March 2022, the second meeting of the 8th 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 2021", "The Audited Financial Report for the Year Ended 31 December 2021", "The Profit Distribution Proposal for 2021" and "The Financial Report on the Final Account for 2021" were reviewed and approved.

2. On 19 August 2022, the third meeting of the 8th 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 2022 issued by SHINEWING (HK) CPA Limited was reviewed and approved.

2. Independent Opinions of the Supervisory Committee on Relevant Issues of the Company for 2022

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 2022, 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 2022 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 2023, 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
17 March 2023

CORPORATE GOVERNANCE REPORT

CORPORATE CULTURE

Technology produces productivity, and culture generates cohesion. The Company has formed its inclusive and unique Weiqiao Textile management philosophy with five ideological methods and eight practice requirements, which has become an important force to promote the scientific, harmonious and sustainable development of the enterprise. While focusing on production efficiency, Weiqiao Textile adheres to the management philosophy of "happy work with a blissful life". By enriching the life of employees outside of work, it has improved their comprehensive quality, thereby enhancing cohesion and promoting creativity for the long-term development of the enterprise.

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 A.2.1 of Part II of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and to make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual 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 principles in the CG Code. During the year ended 31 December 2022, 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 2022, 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.

THE BOARD OF DIRECTORS

As at 31 December 2022, the Board comprised five 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)*
Mr. Wei Jiakun
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. Mr. Wei Jiakun is the elder brother of Ms. Zhao Suhua's husband.

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 A.2.1 of Part II of the CG Code, which include but not limited to:

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

(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.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2022, 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 2022 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 performing 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, Mr. Wei Jiakun, Ms. Zhao Suwen, Mr. Zhang Jinglei, Ms. Zhao Suhua, Mr. Chan Wing Yau, George and Mr. Liu Yanzhao were re-elected as the Directors at the 2020 annual general meeting of the Company held on 28 May 2021. 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 code provision C.5.1 of Part II 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 2022, five 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 2022	Attendance of general meetings held in 2022
Ms. Zhang Hongxia	5/5	2/2
Ms. Zhang Yanhong	5/5	2/2
Mr. Wei Jiakun	5/5	2/2
Ms. Zhao Suwen	5/5	2/2
Mr. Zhang Jinglei	5/5	2/2
Ms. Zhao Suhua	5/5	2/2
Mr. Chan Wing Yau, George	5/5	2/2
Mr. Chen Shuwen	5/5	2/2
Mr. Liu Yanzhao	5/5	2/2

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2022, 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 (i.e. the general manager of the Company) 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.

The Company has established relevant mechanisms to ensure that the Board can obtain independent opinions and information. The Directors may seek professional advices from external independent parties such as legal advisers and auditors, and that all non-executive Directors have attended all board meetings and relevant committee meetings held during the Reporting Period, so as to achieve the above purposes.

The Board shall review the implementation and effectiveness of the above mechanisms every year.

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 2022 to December 2022, 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, Mr. Wei Jiakun, 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 2022 are set out in Note 13 to the consolidated financial statements.

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2022, 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 2022.

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 2022:

Members of Audit Committee	Attendance of Audit Committee meetings held in the year ended 31 December 2022
Mr. Chan Wing Yau, George	2/2
Mr. Chen Shuwen	2/2
Mr. Liu Yanzhao	2/2

The following resolutions were passed on 11 March 2022 after due consideration by members of the Audit Committee present:

1. the audit results report of the Company for the year ended 31 December 2021;

2. the report of the Board of the Company for 2021;

3. the audited financial report of the Company for the year ended 31 December 2021;

4. the profit distribution plan and financial report on the final account of the Company for 2021;

5. the re-appointment of ShineWing Certified Public Accountants LLP as the Company's domestic auditor for the year ended 31 December 2022 and SHINEWING (HK) CPA Limited as the Company's international auditor for the year ended 31 December 2022;

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

7. the annual report and results announcement of the Company for 2021.

On 19 August 2022, 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 2022;

2. the unaudited financial report of the Company for the six months ended 30 June 2022; and

3. 2022 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;

(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. In case the Audit Committee has doubts about the financial statements and the control systems of the Company in the course of the audit, the management of the Company shall 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 2022.

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 2022:

Members of Remuneration Committee	**Attendance of Remuneration Committee meeting held in 2022**
Mr. Liu Yanzhao	1/1
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1

At the Remuneration Committee meeting held on 11 March 2022, 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 2022 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 (i.e. the remuneration committee model referred to in code provision E.1.2(c)(ii) of the CG Code);

(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.

Directors' Remuneration Policy

The executive Directors and non-executive Directors of the Company receive salaries, allowances and other benefits according to their positions and are entitled to retirement benefits contributions and receive fixed directors' fees, which are paid annually after the fee standard being considered and approved at the general meeting.

The independent non-executive Directors of the Company only receive fixed directors' fees, which are paid annually after the fee standard being considered and approved at the general meeting. Apart from this, they shall not be entitled to salaries, allowances or other benefits in the Company. The Company shall bear the expenses incurred by the independent non-executive Directors for the travel expenses of attending the Board meetings and general meetings of the Company based on invoices and other expenses required to exercise their duties in accordance with the Articles of Association. Independent non-executive Directors shall not participate in the Company's internal performance appraisal which is linked to remuneration.

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 2022.

The Members' Attendance Record at Meetings

The following is the attendance record of members of the Nomination Committee at the Nomination Committee meeting held during the year ended 31 December 2022:

Members of Nomination Committee	**Attendance of Nomination Committee meeting held in 2022**
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1
Mr. Liu Yanzhao	1/1

At the Nomination Committee meeting held on 11 March 2022, 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 Rule 13.92 of the Listing Rules. 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.

Policy Summary

All Board appointments will be based on merits, and candidates will be considered against appropriate criteria which take into account the diversity of the Board, including but not limited to the benefits of gender diversity. The Company believes that the level of diversity of the Board is an important factor in maintaining its competitive advantage, and attracting, retaining and motivating employees from the wide pool of talents. The Company shall ensure that the Board members achieve a balance in terms of skills, experience and opinions in order to support its implementation of business strategies.

Measurable Objectives

(i) The proportion of female members must be maintained at 40% or above. It is expected that the proportion of female members of the Board will gradually increase as more women hold higher positions in the economic system, leading to an increase in the number of candidates suitable for directorships;

(ii) The proportion of members aged 50 years or less shall be maintained at 50% or less. A Board composed of members at different ages and with various numbers of years of service may promote the diversity of the Board members and reduce the risk of renewal; and

(iii) There shall be at least one member with professional accounting qualification and one member with professional legal qualification so as to enable the Board to match the different skills required by the Company's business.

Talent Cultivation

The Company provides regular on-the-job trainings for employees to ensure that they thoroughly understand the Company's businesses and policies as well as their roles and responsibilities, and to make up for any lack of knowledge.

The Company also provides relevant trainings for employees with promising potentials to equip them with the special qualities and capabilities required by the Board, so as to cultivate talents with more work experience and skills, and promote them to directorships over time to meet the strategic needs and operating environment of the Company in future.

Monitoring and Reporting

The Nomination Committee shall annually discuss and agree on all measurable objectives for achieving diversity of the Board, and make recommendations to the Board to adopt these objectives. Based on the established objectives, the Company shall annually evaluate the diversity status of the Board, including its gender proportion and its progress in achieving its diversity goals.

The Nomination Committee shall monitor the implementation of this policy, and report annually on the composition of the Board in terms of diversity level (including gender, race, age and length of service) and the progress towards achieving the goal of this policy in the Corporate Governance Report.

The Nomination Committee shall review this policy in due course to ensure its effectiveness. The Nomination Committee shall discuss any amendments that may need to be made, and then propose amendments to the Board for approval.

The nomination and appointments of members of the Board will continue to be based on merits and the Company's business needs from time to time while taking into account the benefits of the diversity of the Board. Selection of the Board candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, race, language, cultural background, educational background, industrial experience and professional experience.

CORPORATE GOVERNANCE REPORT

As of the date of this annual report, the Board consists of nine 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.

At the end of 2022, the Group had approximately 38,000 employees (including senior management), of which approximately 47% were male employees and approximately 53% were female employees. The Company believed that all employees (including senior management) have achieved the established goal of gender diversity.

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 2022.

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 2022 ANNUAL GENERAL MEETING

A general mandate is proposed to be granted to the Board by the shareholders of the Company at the 2022 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 2022 annual general meeting of the Company.

PROPOSED GRANT OF A GENERAL MANDATE TO REPURCHASE H SHARES AT THE 2022 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 2022 annual general meeting, domestic shareholders class meeting and H shareholders class meeting of the Company to be held on 30 May 2023 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 2022 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 2022, SHINEWING (HK) CPA Limited and its affiliated firms and ShineWing Certified Public Accountants LLP have provided the Group with the following services:

	2022
	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*	289

* 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.

CORPORATE GOVERNANCE REPORT

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.

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 2022, which cover financial, operational, compliance controls, risk management functions and environmental, social and governance risks, 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, staff training programmes and budget for handling the accounting, internal audit, financial reporting functions as well as the environmental, social and governance performance and reporting of the Company.

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 2022, 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 were no significant changes in the Articles of Association for the year ended 31 December 2022.

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.

Shareholder Communication Policy

The shareholder communication policy (the "Shareholder Communication Policy") is available on the Company's website. It clarifies the Company's commitment to maintaining effective it, continuous communications with the shareholders.

The purpose of the Shareholder Communication Policy is to ensure that (among others) individual and institutional shareholders of the Company and, where appropriate, the entire investment community (including but not limited to prospective investors of the Company and analysts reporting and analysing the performance of the Company) are provided with effective, equitable and timely access to clear, accurate, comparative and understandable information on the Company's financial performance, strategic objectives and plans, key developments, regulations and risk profiles, enabling shareholders to exercise their rights in an informed manner, and enabling the shareholders and the investment community to pay close attention to the Company as well as maintaining its consistent disclosure level.

CORPORATE GOVERNANCE REPORT

The Company will communicate with the shareholders and the investment community mainly through its financial reports (interim and annual reports), annual general meetings and other general meetings held from time to time, and all disclosure materials submitted to the Stock Exchange on the Company's website, as well as corporate newsletters and other announcements.

The mechanisms adopted by the Company to communicate with the shareholders include (i) shareholder inquiries; (ii) corporate communications; (iii) relevant information published on the Company's website; (iv) communication at general meetings; (v) communication in the investment market, such as investor/analyst briefings and one-to-one meetings, roadshows, media interviews, marketing events, and professional industry forums; and (vi) contact with the Investor Relations Department of the Company. Shareholders can also request for public information from the Company at any time through its email address and inquiry hotline.

The Board shall continuously communicate with the shareholders and the investment community, and shall regularly review this policy and make appropriate revisions to reflect existing best practices in its shareholder communications.

The Board has reviewed the Shareholder Communication Policy for the year ended 31 December 2022 to ensure its effectiveness. The relevant review meeting shall be held annually. After considering the existing multiple channels of communication and contact with the shareholders, the Board believed that the Shareholder Communication Policy was effective for the year ended 31 December 2022.

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

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

SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
311 Gloucester Road,
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

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 (hereinafter collectively referred to as the "**Group**") set out on pages 79 to 162, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 2022, 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.

INDEPENDENT AUDITOR'S REPORT

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 92, 95 and 97.

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 2022, the carrying values of property, plant and equipment and right-of-use assets amounted to approximately RMB8,508,619,000 and RMB324,792,000 respectively. An impairment loss of property, plant and equipment of approximately RMB37,518,000 was recognised while no impairment loss was recognised for right-of-use assets for the year ended 31 December 2022.	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 observed the physical inspection to check whether the property, plant and equipment and right-of-use assets are 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 and assumptions, such as cash flow projections and data used as inputs for the valuation, which included reference to the market selling price of comparable assets and other available market information.

Valuation of inventories

Refer to note 22 to the consolidated financial statements and the accounting policies on page 96.

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 2022, the carrying amount of inventories is approximately RMB3,061,858,000, net of impairment provisions of approximately RMB493,022,000.	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.

INDEPENDENT AUDITOR'S REPORT

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.

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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, actions taken to eliminate threats or safeguards applied.

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
17 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 December 2022

	Notes	**2022** **RMB'000**	2021 RMB'000
Revenue	7	**16,573,668**	16,262,686
Cost of sales		**(17,589,870)**	(14,960,785)
Gross (loss) profit		**(1,016,202)**	1,301,901
Other income and gain	9	**370,539**	381,048
Selling and distribution expenses		**(240,143)**	(225,762)
Administrative expenses		**(379,913)**	(347,918)
Other expenses		**(63,173)**	(352,319)
Finance costs	10	**(143,363)**	(116,306)
Share of profit of an associate		**2,545**	1,253
(Loss) profit before taxation		**(1,469,710)**	641,897
Income tax expense	11	**(92,949)**	(26,992)
(Loss) profit and total comprehensive (expense) income for the year	12	**(1,562,659)**	614,905
Attributable to:			
Owners of the Company		**(1,557,643)**	614,187
Non-controlling interests		**(5,016)**	718
		(1,562,659)	614,905
(Loss) earnings per share attributable to owners of the Company			
Basic and diluted (RMB)	16	**(1.30)**	0.51

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	17	**8,508,619**	8,688,990
Right-of-use assets	18	**324,792**	358,523
Investment properties	19	**93,017**	79,471
Other intangible assets	20	**612**	45
Deposits paid for acquisition of property, plant and equipment		**251,623**	–
Interest in an associate	21	**77,771**	75,226
Deferred tax assets	31	**104,611**	113,906
Total non-current assets		**9,361,045**	9,316,161
Current assets			
Inventories	22	**3,061,858**	2,970,004
Trade receivables	23	**286,074**	537,562
Deposits, prepayments and other receivables	24	**1,001,917**	361,222
Pledged bank deposits	25	**391,267**	465,998
Bank balances and cash	25	**11,402,013**	11,565,829
		16,143,129	15,900,615
Non-current assets classified as held for sale	17	**11**	1,706
Total current assets		**16,143,140**	15,902,321
Current liabilities			
Trade payables	26	**968,611**	1,118,471
Other payables and accruals	27	**1,067,211**	1,031,478
Lease liabilities	18	**13,600**	13,743
Contract liabilities	28	**262,391**	182,602
Income tax payable		**921,240**	849,256
Bank borrowings	29	**4,412,500**	2,247,500
Deferred income	30	**13,356**	12,130
Total current liabilities		**7,658,909**	5,455,180
Net current assets		**8,484,231**	10,447,141
Total assets less current liabilities		**17,845,276**	19,763,302

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	**2022** ***RMB'000***	2021 *RMB'000*
Equity			
Share capital	*32*	**1,194,389**	1,194,389
Reserves		**16,117,645**	17,890,278
Equity attributable to owners of the Company		**17,312,034**	19,084,667
Non-controlling interests		**4,885**	9,901
Total equity		**17,316,919**	19,094,568
Non-current liabilities			
Lease liabilities	*18*	**24,362**	34,672
Deferred income	*30*	**105,029**	118,929
Deferred tax liabilities	*31*	**966**	1,133
Bank borrowings	*29*	**398,000**	514,000
Total non-current liabilities		**528,357**	668,734
Total equity and non-current liabilities		**17,845,276**	19,763,302

The consolidated financial statements on pages 79 to 162 were approved and authorised for issue by the board of directors on 17 March 2023 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 2022

	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 2021	1,194,389	6,692,394	1,845,222	8,811,333	18,543,338	9,183	18,552,521
Profit and total comprehensive income for the year	–	–	–	614,187	614,187	718	614,905
Final 2020 dividend declared *(note 15)*	–	–	–	(72,858)	(72,858)	–	(72,858)
At 31 December 2021 and 1 January 2022	**1,194,389**	**6,692,394**	**1,845,222**	**9,352,662**	**19,084,667**	**9,901**	**19,094,568**
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**(1,557,643)**	**(1,557,643)**	**(5,016)**	**(1,562,659)**
Final 2021 dividend declared *(note 15)*	**–**	**–**	**–**	**(214,990)**	**(214,990)**	**–**	**(214,990)**
At 31 December 2022	**1,194,389**	**6,692,394**	**1,845,222**	**7,580,029**	**17,312,034**	**4,885**	**17,316,919**

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 as the 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 2022

	2022	2021
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
(Loss) profit before taxation	(1,469,710)	641,897
Adjustments for:		
Allowance on inventories	493,022	174,341
Amortisation of other intangible assets	24	15
Depreciation of investment properties	4,148	2,622
Depreciation of property, plant and equipment	699,383	715,229
Depreciation of right-of-use assets	24,094	23,864
Finance costs	143,363	116,306
Gain on disposal of non-current assets held for sale	(3,022)	(1,878)
Gain on disposal of property, plant and equipment	(29,986)	(77,167)
Gain on disposal of right-of-use assets	(18,956)	–
Government grant	(6,778)	(15,737)
Interest income for bank deposits	(159,956)	(108,385)
Impairment loss on property, plant and equipment	37,518	133,261
Loss allowance on trade receivables	1,080	727
Loss allowance on other receivables	265	256
Release of deferred income	(15,822)	(13,507)
Reversal of allowance for inventories	(637)	(534)
Share of profit of an associate	(2,545)	(1,253)
Operating cash flows before movements in working capital	(304,515)	1,590,057
Increase in inventories	(584,239)	(795,638)
Decrease (increase) in trade receivables	250,408	(185,636)
Increase in deposits, prepayments and other receivables	(641,018)	(142,827)
(Decrease) increase in trade payables	(149,860)	67,464
Increase (decrease) in other payables and accruals	32,881	(51,734)
Increase (decrease) in contract liabilities	79,789	(59,544)
Cash (used in) generated from operations	(1,316,554)	422,142
Income tax paid	(11,837)	(263,250)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(1,328,391)	158,892

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year ended 31 December 2022

	2022 *RMB'000*	2021 *RMB'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(925,684)	(83,601)
Placement of pledged bank deposits	(571,238)	(578,890)
Purchase of intangible assets	(591)	–
Withdrawal of pledged bank deposits	645,969	269,409
Bank interest income received	160,014	108,617
Proceeds from disposal of property, plant and equipment	144,003	110,824
Proceeds from disposal of right-of-use assets	18,956	–
Proceeds from disposal of non-current assets held for sale	4,728	3,161
NET CASH USED IN INVESTING ACTIVITIES	(523,843)	(170,480)
FINANCING ACTIVITIES		
New bank borrowings raised	4,296,500	3,261,500
Government grant received	9,926	17,485
Repayment of bank borrowings	(2,247,500)	(2,757,000)
Dividend paid	(214,990)	(72,858)
Interest paid	(137,519)	(112,318)
Payment of lease liabilities	(17,999)	(17,540)
NET CASH FROM FINANCING ACTIVITIES	1,688,418	319,269
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(163,816)	307,681
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	11,565,829	11,258,148
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	11,402,013	11,565,829

1. GENERAL INFORMATION

The Company is a limited company incorporated in the PRC. The registered office of the Company is located at No. 1, Wei Fang Road, Economic Development Zone, Zouping City, Binzhou 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 the first time, the following amendments to the HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which are effective for the Company's financial year beginning 1 January 2022:

Amendments to HKFRS 16	Covid-19 – Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts: Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual improvement to HKFRSs 2018-2020 cycle

The application of 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 (including the October 2020 and February 2022 amendments to HKFRS 17)	Insurance Contracts[1]
Amendments to HKFRS 16	Lease liability in a Sale and Leaseback[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
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[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2024.
[3] Effective for annual periods beginning on or after a date to be determined.

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 value 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 significant 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 over 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.

The requirements of HKAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, 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 investment. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the net 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)

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 to sell.

Revenue from Contracts with Customers

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. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers (Continued)

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.

Contract liabilities

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.

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 they 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)

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.

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 related to income 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 and associates, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties (Continued)

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.

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. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. 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.

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 of inventories represents the estimated selling price in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

In the consolidated statement of financial position, cash and bank balances comprise cash (i.e. cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 25.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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. The Group's financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and effective interest method (Continued)
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.

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

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;
- 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;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Definition of default

Irrespective of the above analysis, 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).

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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.

Financial liabilities

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

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 estimations, 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 land and buildings

Despite the Group has paid the full consideration as detailed in notes 17 and 18, formal titles of certain of the Group's rights to the use of the land and 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 land and 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 and right-of-use assets

The Group assesses whether there are any indicators of impairment for property, plant and equipment and right-of-use assets at the end of each reporting period. Property, plant and equipment 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. When value in use calculations are undertaken, management 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. The fair value less costs of disposal were assessed with reference to the market prices of similar assets after considering the conditions of these assets.

As at 31 December 2022, the carrying amounts of property, plant and equipment and right-of-use assets are approximately RMB8,508,619,000 and RMB324,792,000 respectively (2021: RMB8,688,990,000 and RMB358,523,000 respectively). Impairment loss of approximately RMB37,518,000 (2021: RMB133,261,000) in respect of property, plant and equipment has been recognised while no impairment loss in respect of right-of-use assets has been recognised (2021: 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 2022 are approximately RMB8,508,619,000 and RMB93,017,000 respectively (2021: RMB8,688,990,000 and RMB79,471,000 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 2022, the carrying amounts of trade and other receivables of the Group are approximately RMB286,074,000 and RMB2,594,000 respectively (2021: RMB537,562,000 and RMB13,611,000 respectively), net of impairment losses of trade and other receivables are approximately RMB6,547,000 and RMB901,000 respectively (2021: RMB5,467,000 and RMB636,000 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 2022, the carrying amounts of inventories were approximately RMB3,061,858,000 (2021: RMB2,970,004,000), net of impairment provision of approximately RMB493,022,000 (2021: RMB184,741,000).

Income tax

As at 31 December 2022, no deferred tax asset has been recognised on the tax losses of approximately RMB3,561,737,000 (2021: RMB1,959,726,000) and deductible temporary difference of approximately RMB405,467,000 (2021: RMB72,665,000) 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.

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

	2022	2021
	RMB'000	*RMB'000*
Financial assets		
At amortised cost	**12,082,479**	12,583,589
Financial liabilities		
At amortised cost	**6,672,133**	4,751,687

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 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 balances 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	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**341,691**	3,423,575	**30,050**	56,079

The Group is mainly exposed to US$.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2021: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2021: 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.

A positive number below indicates an decrease in post-tax loss for the year ended 31 December 2022 (2021: increase in post-tax profit) where RMB weakening 5% (2021: 5%) against US$. For a 5% (2021: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the post-tax loss (2021: post-tax profit) and the balances below would be negative.

Effect on post-tax (loss) profit:

	2022	2021
	RMB'000	*RMB'000*
US$	**11,687**	126,281

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 29). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

The Group is exposed to cash flow interest rate risk in relation to floating rate bank balances (see note 25). 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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for 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 10 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 10 basis points higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2022 would decrease/increase by approximately RMB8,845,000 (2021: the Group's post-tax profit would increase/decrease by approximately RMB9,023,000). This is mainly attributable to the Group's exposure to interest rates on bank balances.

Credit risk

As at 31 December 2022, 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 counterparties 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 15% (2021: 10%) and 32% (2021: 36%) 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 2022 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.

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 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:

				2022			2021		
	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)	**292,621**	**(6,547)**	**286,074**	543,029	(5,467)	537,562
Other receivables	*24*	Performing	12-month ECL	**1,993**	**(30)**	**1,963**	13,256	(186)	13,070
Other receivables	*24*	Doubtful	Lifetime ECL – not credit impaired	**1,502**	**(871)**	**631**	991	(450)	541
					(7,448)			(6,103)	

Notes: 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.

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Specifically, 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.

	At 31 December 2022						
	Weighted average interest rate	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	–	968,611	–	–	–	968,611	968,611
Other payables and accruals	–	893,022	–	–	–	893,022	893,022
Bank borrowings	4.79	4,566,931	394,604	32,291	–	4,993,826	4,810,500
		6,428,564	394,604	32,291	–	6,855,459	6,672,133
Lease liabilities	5.35	15,608	11,055	15,569	170	42,402	37,962

	At 31 December 2021						
	Weighted average interest rate	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	–	1,118,471	–	–	–	1,118,471	1,118,471
Other payables and accruals	–	871,716	–	–	–	871,716	871,716
Bank borrowings	4.61	2,321,527	252,081	313,581	–	2,887,189	2,761,500
		4,311,714	252,081	313,581	–	4,877,376	4,751,687
Lease liabilities	5.39	16,547	13,865	23,569	1,482	55,463	48,415

6. FINANCIAL INSTRUMENTS (Continued)

Financial risk management objectives and policies (Continued)

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 the fair values of current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their carrying amounts due to short-term maturities.

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

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:

	2022	2021
	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	**4,555,618**	5,290,988
• Grey Fabric	**5,325,722**	5,551,419
• Denim	**617,983**	607,912
– Sales of electricity and steam	**6,074,345**	4,812,367
	16,573,668	16,262,686

7. REVENUE (Continued)

Disaggregation of the Group's revenue by geographical market

For the year ended 31 December 2022	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
Geographical market			
Mainland China	**7,406,435**	**6,074,345**	**13,480,780**
Hong Kong, China	**531,175**	**–**	**531,175**
East Asia region	**567,243**	**–**	**567,243**
Southeast Asia region	**552,262**	**–**	**552,262**
South Asia region	**1,157,812**	**–**	**1,157,812**
Other regions	**284,396**	**–**	**284,396**
	10,499,323	**6,074,345**	**16,573,668**

For the year ended 31 December 2021	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
Geographical market			
Mainland China	8,090,173	4,812,367	12,902,540
Hong Kong, China	927,696	–	927,696
East Asia region	568,216	–	568,216
Southeast Asia region	278,624	–	278,624
South Asia region	1,344,073	–	1,344,073
Other regions	241,537	–	241,537
	11,450,319	4,812,367	16,262,686

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

7. REVENUE (Continued)

Transaction price allocated to the remaining performance obligations for contracts

The contracts are with an original expected duration of one year or less or contracts for which revenue is recognised at the amount to which that Group has the right to invoice for the services performed. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period.

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 is categorised mainly according to the types of products sold and services provided.

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

– The textile products segment produces and sells cotton yarn, grey fabric and denim; and

– The electricity and steam segment generates electricity and steam for internal use in the production of textile products and sells the remaining portion to external customers.

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

8. SEGMENT INFORMATION (Continued)

Segment revenues and results

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

For the year ended 31 December 2022

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	10,499,323	6,074,345	16,573,668
Intersegment revenue	–	1,205,581	1,205,581
Segment revenue	10,499,323	7,279,926	17,779,249
Eliminations			(1,205,581)
Group revenue			16,573,668
Segment (loss) profit	(1,707,036)	347,998	(1,359,038)
Unallocated income			370,539
Unallocated corporate expenses			(343,385)
Unallocated finance costs			(140,371)
Share of profit of an associate			2,545
Loss before taxation			(1,469,710)

8. SEGMENT INFORMATION (Continued)

Segment revenues and results (Continued)

For the year ended 31 December 2021

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	11,450,319	4,812,367	16,262,686
Intersegment revenue	–	1,203,891	1,203,891
Segment revenue	11,450,319	6,016,258	17,466,577
Eliminations			(1,203,891)
Group revenue			16,262,686
Segment profit	598,551	207,349	805,900
Unallocated income			381,048
Unallocated corporate expenses			(433,360)
Unallocated finance costs			(112,944)
Share of profit of an associate			1,253
Profit before taxation			641,897

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment (loss) profit represents the (loss) profit of each segment without allocation of central administration costs, directors' emoluments, research and development expenses, other income, interest on bank loans and share of results of an associate. This is the measure adopted for reporting 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 segments:

Segment assets

	2022 RMB'000	2021 RMB'000
Textile products	7,813,882	6,565,825
Electricity and steam	5,424,571	6,119,204
Total segment assets	13,238,453	12,685,029
Interest in an associate	77,771	75,226
Corporate and other assets	12,187,961	12,458,227
Total assets	25,504,185	25,218,482

Segment liabilities

	2022 RMB'000	2021 RMB'000
Textile products	2,068,249	2,322,890
Electricity and steam	80,136	120,902
Total segment liabilities	2,148,385	2,443,792
Corporate and other liabilities	6,038,881	3,680,122
Total liabilities	8,187,266	6,123,914

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, pledged bank deposits, bank balances and cash and other corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments; and

– All liabilities are allocated to each operating segment, other than 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 2022

	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)	656,807	17,254	5,145	679,206
Depreciation and amortisation	209,210	457,198	61,241	727,649
Impairment losses on property, plant and equipment	25,088	12,430	–	37,518
Reversal of allowances for inventories	(637)	–	–	(637)
Allowances for inventories	493,022	–	–	493,022
Loss allowance (reversal of loss allowance) on trade receivables	1,245	(165)	–	1,080
Loss allowance on other receivables	265	–	–	265
Gain on disposal of property, plant and equipment	(29,986)	–	–	(29,986)
Gain on disposal of right-of-use asset	(18,956)	–	–	(18,956)
Gain on disposal of non-current assets classified as held for sale	(3,022)	–	–	(3,022)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(159,956)	(159,956)
Finance costs	2,992	–	140,371	143,363
Interest in an associate	–	–	77,771	77,771
Share of profit of an associate	–	–	(2,545)	(2,545)
Income tax expense	–	–	92,949	92,949

8. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the year ended 31 December 2021

	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)	45,669	37,936	–	83,605
Depreciation and amortisation	251,312	443,243	47,175	741,730
Impairment losses on property, plant and equipment	82,107	51,154	–	133,261
Reversal of allowances for inventories	(534)	–	–	(534)
Allowances for inventories	174,341	–	–	174,341
Loss allowance on trade receivables	487	240	–	727
Loss allowance on other receivables	256	–	–	256
Gain on disposal of property, plant and equipment	(77,167)	–	–	(77,167)
Gain on disposal of non-current assets classified as held for sale	(1,878)	–	–	(1,878)
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:				
Interest income	–	–	(108,385)	(108,385)
Finance costs	3,362	–	112,944	116,306
Interest in an associate	–	–	75,226	75,226
Share of profit of an associate	–	–	(1,253)	(1,253)
Income tax expense	–	–	28,402	28,402

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 2022 and 2021, 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 at which the goods and services were delivered or rendered as follows:

Revenue from external customers

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**13,480,780**	12,902,540
Hong Kong, China	**531,175**	927,696
East Asia region	**567,243**	568,216
Southeast Asia region	**552,262**	278,624
South Asia region	**1,157,812**	1,344,073
Other regions	**284,396**	241,537
	16,573,668	16,262,686

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:

	2022	2021
	RMB'000	*RMB'000*
Customer A *(note i)*	**2,752,652**	2,234,720
Holding Company *(note ii)*	**2,355,532**	1,868,737

Notes:

i. Revenue from sales of electricity and steam.

ii. Revenue from sales of textile products and electricity.

9. OTHER INCOME AND GAIN

	2022	2021
	RMB'000	*RMB'000*
Interest income from bank deposits	**159,956**	108,385
Exchange gain, net	**56,248**	–
Release of deferred income	**15,822**	13,507
Government grants *(note i)*	**6,778**	15,737
Compensation from suppliers on the supply of sub-standard goods	**14,788**	14,093
Gain on sale of waste and spare parts	**49,587**	132,755
Gain on disposal of property, plant and equipment	**29,986**	77,167
Gain on disposal of right-of-use asset	**18,956**	–
Gain on disposal of non-current assets classified as held for sale	**3,022**	1,878
Gross rental income *(note ii)*	**14,908**	7,799
Others	**488**	9,727
	370,539	381,048

Notes:

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 approximately RMB752,000 (2021: approximately RMB486,000) were incurred during the year ended 31 December 2022.

10. FINANCE COSTS

	2022	2021
	RMB'000	*RMB'000*
Interest on:		
– bank borrowings	**140,371**	112,944
– lease liabilities	**2,992**	3,362
	143,363	116,306

11. INCOME TAX EXPENSE

	2022 *RMB'000*	2021 *RMB'000*
Current tax:		
PRC Enterprises Income Tax ("**EIT**")	**83,821**	42,260
Deferred tax	**9,128**	(15,268)
	92,949	26,992

Notes:

(i) No Hong Kong Profits Tax has been provided for the years ended 31 December 2022 and 2021 as the Company did not have any assessable profits subject to Hong Kong Profits Tax.

(ii) Under the EIT Law of the PRC (the "**EIT Law**") and Implementation Regulations of the EIT Law, the income tax rate of PRC companies is 25% for both years. Pursuant to the relevant laws and regulations in the PRC, the Company and a PRC subsidiary were accredited as high-tech enterprises, they are both eligible to apply a preferential tax rate of 15%.

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

	2022 *RMB'000*	2021 *RMB'000*
(Loss) profit before taxation	**(1,469,710)**	641,897
Tax at the tax rate of 25%	**(367,428)**	160,474
Tax effect of share of result of an associate	**(636)**	(313)
Tax effect of expenses not deductible for tax purposes	**12,598**	10,524
Tax effect of income not taxable for tax purposes	**(5,200)**	(6,504)
Tax effect of deductible temporary differences not recognised	**83,201**	–
Tax effect of tax losses not recognised	**413,217**	62,503
Utilisation of tax losses previously not recognised	**(12,640)**	(211,162)
Effect of preferential tax rate in the PRC	**(30,841)**	7,704
Effect of different tax rates of subsidiaries operating in other jurisdictions	**678**	44
Effect on deferred tax balances resulting from a decrease in tax rate	**–**	3,722
Income tax expense for the year	**92,949**	26,992

12. (LOSS) PROFIT FOR THE YEAR

	2022 RMB'000	2021 RMB'000
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors', chief executive's and supervisors' emoluments (note 13)	5,541	5,354
Salaries, wages, allowances and other benefits	2,866,155	3,098,200
Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments)	794,561	298,093
Total staff costs	3,666,257	3,401,647
Auditor's remuneration	6,000	6,055
Depreciation of property, plant and equipment	699,383	715,229
Depreciation of right-of-use assets	24,094	23,864
Depreciation of investment properties	4,148	2,622
Exchange loss, net (included in other expenses)	–	46,592
Impairment loss on property, plant and equipment (included in other expenses)	37,518	133,261
Research and development costs (note)	535,461	595,559
Amortisation of other intangible assets	24	15
Loss allowance on trade receivables (included in administrative expenses)	1,080	727
Loss allowance on other receivables (included in administrative expenses)	265	256
Allowance for inventories (included in cost of sales)	493,022	174,341
Reversal of allowance for inventories (included in cost of sales)	(637)	(534)
Amount of inventories recognised as an expense	17,589,870	14,960,785

Note: Staff costs of approximately RMB94,947,000 (2021: approximately RMB109,030,000) are included in the research and development costs for the year ended 31 December 2022.

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 *RMB'000*	**Salaries, allowances and other benefits** *RMB'000*	**Employer's contributions to retirement benefits scheme** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2022				
Executive directors				
Ms. Zhang Hongxia	1,200	148	22	1,370
Ms. Zhang Yanhong	600	282	146	1,028
Ms. Zhao Suwen	600	113	21	734
Mr. Zhang Jinglei	300	108	21	429
Mr. Wei Jiakun	600	105	21	726
Non-executive director				
Ms. Zhao Suhua	100	93	21	214
Independent non-executive directors				
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	536	–	–	536
Mr. Liu Yanzhao	150	–	–	150
	4,236	849	252	5,337
Supervisors:				
Ms. Wang Xiaoyun	30	–	–	30
Ms. Fan Xuelian	30	–	–	30
Ms. Bu Xiaoxia	30	93	21	144
	90	93	21	204
Total	4,326	942	273	5,541

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 *RMB'000*	Salaries, allowances and other benefits *RMB'000*	Employer's contributions to retirement benefits scheme *RMB'000*	Total *RMB'000*
Year ended 31 December 2021				
Executive directors				
Ms. Zhang Hongxia	1,200	122	21	1,343
Ms. Zhang Yanhong	600	285	133	1,018
Ms. Zhao Suwen	600	91	20	711
Mr. Zhang Jinglei	300	76	20	396
Mr. Wei Jiakun *(appointed as executive director on 28 May 2022)* *(Note)*	600	91	19	710
Non-executive director				
Ms. Zhao Suhua	100	80	19	199
Independent non-executive directors				
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	491	–	–	491
Mr. Liu Yanzhao	150	–	–	150
	4,191	745	232	5,168
Supervisors:				
Ms. Wang Xiaoyun	30	–	–	30
Ms. Fan Xuelian	30	–	–	30
Ms. Bu Xiaoxia	30	77	19	126
	90	77	19	186
Total	4,281	822	251	5,354

Note: Mr. Wei Jiakun is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

No emoluments were paid by the Group to the directors as an inducement for joining or upon joining the Group or as compensation for loss of office during the years end 31 December 2022 and 2021.

14. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments include five directors (2021: five directors and the chief executive) of the Company whose emoluments are set out in note 13.

Their emoluments were within the following bands:

	2022 No. of employees	2021 No. of employees
Nil to HK$1,000,000 (approximately RMB830,000)	**3**	3
HK$1,000,001 to HK$1,500,000 (approximately RMB830,000 to RMB1,244,000)	**2**	2

15. DIVIDENDS

	2022 ***RMB'000***	2021 *RMB'000*
2022 Proposed Final – RMB0.00 (2021 Final – RMB0.18) per share	**–**	214,990

No dividend was paid or proposed during the year ended 31 December 2022 nor has any dividend been proposed since the end of the reporting period (2021: RMB0.18 per share, amounting to a total of approximately RMB214,990,000).

16. (LOSS) EARNINGS PER SHARE

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

	2022	2021
	RMB'000	*RMB'000*
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share	**(1,557,643)**	614,187

	2022	2021
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 (loss) earnings per share is equal to the basic (loss) earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2022 and 2021.

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 2021	7,204,121	16,416,508	294,678	54,791	23,970,098
Additions	3,435	28,781	3,009	48,376	83,601
Disposals	(189,419)	(868,242)	(14,521)	–	(1,072,182)
Reclassified as held for sale	–	(42,392)	–	–	(42,392)
Transferred to investment properties	(42,506)	–	–	–	(42,506)
Transfers	6,629	35,575	–	(42,204)	–
At 31 December 2021 and 1 January 2022	**6,982,260**	**15,570,230**	**283,166**	**60,963**	**22,896,619**
Additions	**9,218**	**256,017**	**72,538**	**336,288**	**674,061**
Disposals	**(2,713)**	**(551,751)**	**(7,566)**	**–**	**(562,030)**
Reclassified as held for sale	**–**	**(290)**	**–**	**–**	**(290)**
Transferred to investment properties	**(12,104)**	**–**	**–**	**–**	**(12,104)**
Transfers	**31,559**	**94,020**	**576**	**(126,155)**	**–**
At 31 December 2022	**7,008,220**	**15,368,226**	**348,714**	**271,096**	**22,996,256**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2021	2,076,393	12,160,865	216,416	–	14,453,674
Charge for the year	221,719	468,503	25,007	–	715,229
Eliminated on disposals	(156,488)	(868,242)	(13,795)	–	(1,038,525)
Reclassified as held for sale	–	(40,696)	–	–	(40,696)
Transferred to investment properties	(15,314)	–	–	–	(15,314)
Impairment loss recognised	90,505	42,756	–	–	133,261
At 31 December 2021 and 1 January 2022	**2,216,815**	**11,763,186**	**227,628**	**–**	**14,207,629**
Charge for the year	**213,207**	**464,802**	**21,374**	**–**	**699,383**
Eliminated on disposals	**(692)**	**(443,333)**	**(3,988)**	**–**	**(448,013)**
Reclassified as held for sale	**–**	**(279)**	**–**	**–**	**(279)**
Transferred to investment properties	**(8,601)**	**–**	**–**	**–**	**(8,601)**
Impairment loss recognised	**4,890**	**32,487**	**141**	**–**	**37,518**
At 31 December 2022	**2,425,619**	**11,816,863**	**245,155**	**–**	**14,487,637**
CARRYING VALUES					
At 31 December 2022	4,582,601	3,551,363	103,559	271,096	8,508,619
At 31 December 2021	4,765,445	3,807,044	55,538	60,963	8,688,990

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 2022, the Group's buildings, machinery and equipment with carrying values of approximately RMB1,583,804,000 (2021: RMB1,477,129,000) have been pledged to secure banking facilities granted to the Group.

During the year ended 31 December 2022, the management conducted reviews on the recoverable amounts of property, plant and equipment and right-of-use assets. As a result, impairment losses of approximately RMB37,518,000 (2021: RMB133,261,000) have been recognised in profit or loss to reduce the carrying amount of certain idle building, machinery and equipment to their recoverable amounts.

The Group's idle buildings, machinery and equipment were valued individually by Wan Long (Shanghai) Assets Evaluation Co., Ltd. ("**Shanghai Wan Long**") and Zhong He (Shandong) Assets Evaluation Co., Ltd., independent professionally qualified valuers. The recoverable amounts of these idle buildings, machinery and equipment were determined based on fair value less costs of disposal or value-in-use. 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 and the cost to a market participant to construct assets of comparable utility and age, adjusted for obsolescence.

As at 31 December 2022, the Group was in the process of obtaining the certificates of ownership for buildings which carrying values of approximately RMB957,635,000 (2021: RMB997,748,000) 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 2022 and 2021, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2022 and 2021 and expected to be fulfilled in 2023 and 2022 respectively.

18. LEASES

(i) Right-of-use assets

	2022	2021
	RMB'000	*RMB'000*
Land	**320,323**	356,368
Buildings	**4,469**	2,155
	324,792	358,523

Right-of-use assets of approximately RMB320,323,000 (2021: RMB356,368,000) represents land use rights located in the PRC. As at 31 December 2021, the Group is still in a process of obtaining the land certificate with the carrying amount of approximately RMB164,405,000 (2022: nil). In the opinion of the directors, based on the 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 2 to 20 years.

The Group has additions of approximately RMB4,554,000 to the right-of-use assets for the year ended 31 December 2022 (2021: nil).

(ii) Lease liabilities

	2022	2021
	RMB'000	*RMB'000*
Current	**13,600**	13,743
Non-current	**24,362**	34,672
	37,962	48,415

18. LEASES (Continued)

(ii) Lease liabilities (Continued)

Amounts payable under lease liabilities	2022 RMB'000	2021 RMB'000
Within one year	13,600	13,743
After one year but within two years	9,744	12,015
After two years but within five years	14,453	21,246
After five years	165	1,411
	37,962	48,415
Less: Amount due for settlement within 12 months (shown under current liabilities)	(13,600)	(13,743)
Amount due for settlement after 12 months	24,362	34,672

During the year ended 31 December 2022, the Group entered into three new lease agreements in respect of renting properties and recognised lease liabilities of approximately RMB4,554,000 (2021: nil).

(iii) Amount recognised in profit or loss

	2022 RMB'000	2021 RMB'000
Depreciation of right-of-use assets		
– Land	21,853	22,042
– Building	2,241	1,822
Interest expense on lease liabilities	2,992	3,362
Expense relating to short-term leases	–	459

(iv) Others

During the year ended 31 December 2022, the total cash outflow for lease amount to RMB17,999,000 (2021: RMB17,999,000).

19. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2021	98,248
Transfer from property, plant and equipment	42,506
At 31 December 2021 and 1 January 2022	140,754
Transfer from property, plant and equipment	12,104
Transfer from right-of-use assets	19,294
At 31 December 2022	172,152
DEPRECIATION AND IMPAIRMENT	
At 1 January 2021	43,347
Charge for the year	2,622
Transfer from property, plant and equipment	15,314
At 31 December 2021 and 1 January 2022	61,283
Charge for the year	4,148
Transfer from property, plant and equipment	8,601
Transfer from right-of-use assets	5,103
At 31 December 2022	79,135
CARRYING VALUES	
At 31 December 2022	93,017
At 31 December 2021	79,471

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

Buildings	25 years
Land use rights	40 years

During the year ended 31 December 2022, certain owned properties and land use rights with carrying values of approximately RMB3,503,000 and RMB14,191,000 (2021:RMB27,192,000 and nil) have been transferred from property, plant and equipment and right-of-use assets respectively to investment properties as these properties and land use rights are held for rental income upon signing of lease agreements.

19. INVESTMENT PROPERTIES (Continued)

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 2022 and 2021.

The fair value of approximately RMB239,413,000 (2021: RMB240,026,000) is estimated by income approach 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 *RMB'000*	Software *RMB'000*	Total *RMB'000*
COST			
At 1 January 2021, 31 December 2021 and 1 January 2022	12,002	1,740	13,742
Additions	–	591	591
At 31 December 2022	12,002	2,331	14,333
AMORTISATION			
At 1 January 2021	12,002	1,680	13,682
Charge for the year	–	15	15
At 31 December 2021 and 1 January 2022	12,002	1,695	13,697
Charge for the year	–	24	24
At 31 December 2022	12,002	1,719	13,721
CARRYING VALUES			
At 31 December 2022	–	612	612
At 31 December 2021	–	45	45

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

21. INTEREST IN AN ASSOCIATE

	2022	2021
	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	**10,271**	7,726
	77,771	75,226

At 31 December 2022 and 2021, 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
			2022	2021	**2022**	2021	
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

* *For identification purpose only*

22. INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Raw materials and consumables	**1,552,193**	1,437,828
Work-in-progress	**222,630**	380,555
Semi-finished goods	**807,817**	559,293
Finished goods	**479,218**	592,328
	3,061,858	2,970,004

22. INVENTORIES (Continued)

As at 31 December 2022, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB493,022,000 (2021: RMB184,741,000).

During the year ended 31 December 2022, an allowance for inventories of approximately RMB493,022,000 (2021: RMB174,341,000) has been recognised and included in cost of sales.

During the year ended 31 December 2022, there was a change in allowance of approximately RMB184,104,000 (2021: RMB123,636,000) for inventories due to elimination of allowances upon the subsequent sales of inventories during the year.

During the year ended 31 December 2022, 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 RMB637,000 (2021: RMB534,000) has been recognised and included in cost of sales during the year.

23. TRADE RECEIVABLES

	2022 ***RMB'000***	2021 *RMB'000*
Receivables at amortised cost comprise:		
Trade receivables	**292,621**	543,029
Less: loss allowance for trade receivables	**(6,547)**	(5,467)
	286,074	537,562

As at 31 December 2022, the gross amount of trade receivables arising from contracts with customers amounted to approximately RMB292,621,000 (2021: approximately RMB543,029,000).

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.

23. TRADE RECEIVABLES (Continued)

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.

	2022 RMB'000	2021 RMB'000
Within 90 days	274,752	515,534
91 to 180 days	11,057	12,893
181 to 365 days	15	9,084
Over 365 days	250	51
	286,074	537,562

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 aging status is not further distinguished between the Group's different customer bases.

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

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
As at 31 December 2022			
Within 3 months	0.14%	275,137	385
3 months to 1 year	0.82%	11,164	91
1 to 2 years	86.60%	1,863	1,614
Over 2 years	100%	4,457	4,457
		292,621	6,547

23. TRADE RECEIVABLES (Continued)

	Weighted average expected loss rate %	Gross carrying amount *RMB'000*	Loss allowance *RMB'000*
As at 31 December 2021			
Within 3 months	0.17%	516,412	878
3 months to 1 year	0.81%	22,156	179
1 to 2 years	33.33%	3	1
Over 2 years	98.90%	4,458	4,409
		543,029	5,467

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

	2022 ***RMB'000***	2021 *RMB'000*
At the beginning of the year	**5,467**	4,740
Loss allowance recognised in profit or loss during the year	**1,080**	727
At the end of the year	**6,547**	5,467

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2022 ***RMB'000***	2021 *RMB'000*
Prepayments to suppliers *(note i)*	**769,447**	75,714
Other taxes recoverable	**229,345**	271,308
Interest receivables	**499**	557
Deposits	**32**	32
Other receivables *(note ii)*	**3,495**	14,247
	1,002,818	361,858
Less: loss allowance for other receivables	**(901)**	(636)
	1,001,917	361,222

24. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (Continued)

Notes:

(i) Included in the balance of approximately RMB699,132,000 was the prepayment for purchase of coals for operating use.

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

	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	***RMB'000***	***RMB'000***
As at 31 December 2022			
Performing	**1.50%**	**1,993**	**30**
Doubtful	**57.98%**	**1,502**	**871**
		3,495	**901**

	Expected loss rate	Gross carrying amount	Loss allowance
	%	*RMB'000*	*RMB'000*
As at 31 December 2021			
Performing	1.40%	13,256	186
Doubtful	45.41%	991	450
		14,247	636

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

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**636**	380
Loss allowance recognised in profit or loss during the year	**265**	256
At 31 December	**901**	636

25. PLEDGED BANK 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. Deposits amounting to approximately RMB391,267,000 (2021: RMB465,998,000) have been pledged to secure short-term bank loans and are therefore classified as current assets. The pledged bank deposit will be released upon settlement of relevant bank borrowings.

The pledged deposits carry fixed interest rate of 1.5% (2021: 1.3%) per annum.

Bank balances and cash

Bank balances earned interest at floating rates based on daily bank deposit rates which is 1.5% per annum (2021: 0.3% 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:

	2022	2021
	RMB'000	*RMB'000*
Within 90 days	**734,250**	987,558
91 to 180 days	**94,978**	2,828
181 to 365 days	**101,773**	27,359
Over 365 days	**37,610**	100,726
	968,611	1,118,471

The average credit period granted to the Group 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

	2022	2021
	RMB'000	*RMB'000*
Payroll payable	**261,750**	300,820
Accrued staff benefits	**487,554**	453,860
Other taxes payable	**174,189**	159,762
Accrued distribution expenses	**30,829**	20,962
Deposits received	**66,480**	59,678
Interest payable	**6,896**	4,044
Other payables	**39,513**	32,352
	1,067,211	1,031,478

28. CONTRACT LIABILITIES

	2022	2021
	RMB'000	*RMB'000*
Sales of fabric products	**262,288**	134,203
Sales of electricity and steam	**103**	48,399
	262,391	182,602

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

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

The significant change in contract liabilities in 2022 was mainly due to the increase in purchases order from customers in late 2022.

Revenue recognised during the year ended 31 December 2022 that was included in the contract liabilities as at 31 December 2021 is approximately RMB182,602,000 (2021:RMB242,146,000).

29. BANK BORROWINGS

	2022		
	Effective interest rate ***(%)***	**Maturity**	**RMB'000**
Current			
Bank loans			
– Unsecured	4.79-5.27	2023	3,179,500
– Secured	4.75-5.22	2023	1,233,000
			4,412,500
Non-Current			
Bank loans			
– Unsecured	3.2	2024-2025	120,000
– Secured	4.75	2024	278,000
			398,000
			4,810,500

29. BANK BORROWINGS (Continued)

	2021		
	Effective interest rate *(%)*	Maturity	*RMB'000*
Current			
Bank loans			
– Unsecured	4.79	2022	1,065,000
– Secured	3.6-5.22	2022	1,182,500
			2,247,500
Non-Current			
Bank loans			
– Unsecured	4.79	2023	200,000
– Secured	4.75	2023-2024	314,000
			514,000
			2,761,500

	2022	2021
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**4,412,500**	2,247,500
After one year but within two years	**368,000**	236,000
After two years but within three years	**30,000**	278,000
	4,810,500	2,761,500

29. BANK BORROWINGS (Continued)

a) As at 31 December 2022 and 2021, all Group's bank loans are denominated in RMB.

b) As at 31 December 2022, certain of the Group's bank loans amounting to RMB1,511,000,000 (2021: RMB1,496,500,000) were secured by certain of the Group's buildings, machinery and equipment, investment properties and right-of-use assets of an aggregate carrying value of approximately RMB1,583,804,000, RMB37,640,000 and RMB51,131,000 respectively (2021: RMB1,477,129,000, nil and RMB52,823,000 respectively).

c) During the year ended 31 December 2022, the Group obtained new loans in the amount of RMB4,296,500,000 (2021: RMB3,261,500,000). The proceeds were used to purchase the raw materials.

d) As at 31 December 2022 and 2021, all bank loans are fixed-rate loans. The fixed-rate loans carry effective interest rate ranging from 3.2% to 5.3% per annum (2021: 3.6% to 5.2% per annum).

30. DEFERRED INCOME

	RMB'000
At 1 January 2021	142,818
Addition	1,748
Amortisation during the year	(13,507)
At 31 December 2021 and 1 January 2022	131,059
Addition	3,148
Amortisation during the year	(15,822)
At 31 December 2022	118,385

30. DEFERRED INCOME (Continued)

	2022	2021
	RMB'000	*RMB'000*
Analysed as:		
Current liabilities	**13,356**	12,130
Non-current liabilities	**105,029**	118,929
	118,385	131,059

Deferred income recognised in the consolidated statement of financial position arises 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) for the financial reporting purposes:

	2022	2021
	RMB'000	*RMB'000*
Deferred tax assets	**104,611**	113,906
Deferred tax liabilities	**(966)**	(1,133)
	103,645	112,773

31. DEFERRED TAXATION (Continued)

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 2021	98,804	(1,299)	97,505
Credit to profit or loss	15,102	166	15,268
At 31 December 2021 and 1 January 2022	113,906	(1,133)	112,773
(Charge) credit to profit or loss	(9,295)	167	(9,128)
At 31 December 2022	104,611	(966)	103,645

As at 31 December 2022, the Group has deductible temporary differences of approximately RMB823,910,000 (2021: RMB528,289,000). Deferred tax assets of approximately RMB104,611,000 (2021: RMB113,906,000) has been recognised on approximately RMB418,443,000 (2021: RMB455,624,000). No deferred tax asset was recognised on the remaining amount of approximately RMB405,467,000 (2021: RMB72,665,000) as it was uncertain that taxable profit would be available against which the deductible temporary differences can be utilised.

As at 31 December 2022, no deferred tax asset has been recognised on the tax losses of approximately RMB3,561,737,000 (2021: RMB1,959,726,000) due to the unpredictability of future profit streams.

As at 31 December 2022, the Group has tax losses of approximately RMB3,560,509,000 (2021: RMB1,956,816,000) that will be expired within next five years. The remaining tax losses of approximately RMB1,228,000 (2021: RMB2,910,000) may be carried forward indefinitely.

32. SHARE CAPITAL

	2022 RMB'000	2021 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 RMB14,908,000 (2021: RMB7,384,000). The properties are expected to generate rental yields of 10.65% (2021: 9.57%) 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:

	2022 RMB'000	2021 RMB'000
Within 1 year	**14,500**	11,321
After 1 year but within 2 years	**14,897**	10,946
After 2 years but within 3 years	**15,480**	11,324
After 3 years but within 4 years	**16,140**	11,821
After 4 years but within 5 years	**16,717**	12,460
After 5 years	**272,207**	235,648
	349,941	293,520

34. COMMITMENTS

	2022 *RMB'000*	2021 *RMB'000*
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the consolidated financial statements	**254,451**	474,483

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:

	2022 *RMB'000*	2021 *RMB'000*
Property, plant and equipment	**1,583,804**	1,477,129
Right-of-use assets	**51,131**	52,823
Investment properties	**37,640**	–
Pledged bank deposits	**391,267**	465,998
	2,063,842	1,995,950

36. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

Related party	Nature of transaction	2022 RMB'000	2021 RMB'000
Holding Company	Sales of electricity *(notes i and iii)*	**2,340,737**	1,863,594
	Sales of textile products *(notes i and vii)*	**14,795**	5,143
	Lease payment on land use rights and property leasing *(notes i and vi)*	**16,859**	17,674
	Purchase of water *(notes i and viii)*	**15,550**	6,191
Fellow subsidiaries	Gross rental income *(note ii)*	**1,009**	734
	Sales of textile products *(notes i and vii)*	**419,192**	523,705
	Sales of materials *(note ii)*	**463**	–
	Processing of textile products *(notes i and ix)*	**3**	1,566
	Purchase of textile products *(notes i and x)*	**43,379**	17,176
	Purchase of materials (notes ii)	**588**	–
濱州綠動熱電有限公司 Binzhou Ludong Thermal Power Co., Ltd* ("**Binzhou Ludong**")	Purchases of steam *(notes i and iv)*	**10,453**	12,020
鄒平縣宏利熱電有限公司 Zouping Country Hongli Thermal Power Co., Ltd* ("**Hongli Thermal Power**")	Purchases of steam *(notes i and v)*	**3,677**	3,119
山東魏橋輕量化材料有限公司 Shandong Weiqiao Lightweight Material Co., Ltd.* ("**Weiqiao Lightweight**")	Gain on disposal of right-of-use asset *(notes i and xi)*	**18,956**	–

* *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 to be exempted from the disclosures requirements in Chapter 14A of the Listing Rules.

(iii) Electricity supply agreement with the Holding Company

On 21 October 2019, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (supply excess electricity)". According to the announcement and the circular, the Company announced that, on 21 October 2019, it renewed the excess electricity supply agreement dated 26 October 2016 with a period of three years commencing on 1 January 2020 (the "**Renewed Supply Agreement (Excess Electricity) 2020**"). The Renewed Supply Agreement (Excess Electricity) 2020 agreed upon a new maximum aggregate annual value of electricity supplied.

Pursuant to the Renewed Supply Agreement (Excess Electricity) 2020, the benchmark price of excess electricity supplied to the Shandong Weiqiao Chuangye Group Company Limited and it's subsidiaries ("**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. The annual caps under the Renewed Supply Agreement (Excess Electricity) 2020 for the three financial years ended 31 December 2022 are RMB3,124,232,000 (exclusive of VAT).

Details refer to the Company's announcement dated 21 October 2019.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(iii) Electricity supply agreement with the Holding Company (Continued)

On 30 September 2022, the Company made an announcement and issued a circular, respectively, on "Renewal of continuing Connected Transactions (supply excess electricity)". According to the announcement and the circular, the Company announced that, on 30 September 2022, it renewed the excess electricity supply agreement dated 21 October 2019 with a period of three years commencing on 1 January 2023 (the "**Renewed Supply Agreement (Excess Electricity) 2023**"). The Renewed Supply Agreement (Excess Electricity) 2023 agreed upon a new maximum aggregate annual value of electricity supplied.

Pursuant to the Renewed Supply Agreement (Excess Electricity) 2023, the benchmark price of excess electricity supplied to Parent Group by the Group for each month was based on the list of Shandong Province power grid selling price (industrial and commercial use) as issued by the Development and Reform Commission of Shandong Province, or the list of electricity price of agent purchase as issued by State Grid Shandong Electric Power Company, as effective in the relevant month with the two-part tariff and the price for "220kWh or above" applied and on the assumption of 24-hour continuous equalising consumption with 10% discount. The Company will charge the electricity price based on the actual amount of electricity supplied on the last business day of each month. The annual caps under the Renewed Supply Agreement (Excess Electricity) 2023 for the three financial years ending 31 December 2025 are RMB2,831,000,000 (exclusive of VAT).

Details refer to the Company's announcement dated 30 September 2022.

(iv) Steam purchase agreements with Binzhou Ludong

Pursuant to the agreement, Binzhou Weiqiao Technology Industrial Park Company Limited, a subsidiary of the Company, agreed to purchase steam from Binzhou Ludong, a directly wholly-owned subsidiary of Binzhou City Hongnuo New Material Co., Limited, the supplier stated in the agreement and an indirectly partially-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. The annual caps under the agreement for the three financial years ended 31 December 2022 are RMB27,020,000 (exclusive of VAT). Details refer to the announcement dated 21 October 2019.

On 28 December 2022, in order to streamline the arrangement among abovementioned subsidiary, the Company and Shandong Hongqiao New Material Co., Limited ("Shandong Hongqiao"), a directly partially-owned subsidiary of Hongqiao Group, entered the steam purchase agreement in which Shandong Hongqiao and its subsidiaries agreed to supply steam to the Company and its subsidiaries for the period from 1 January 2023 to 31 December 2025, at a price of RMB246 per ton (including VAT). Details refer to the Company's announcement dated 28 December 2022.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(v) Steam purchase agreements with Hongli Thermal Power

Hongli Thermal Power is an indirectly partially-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. The annual caps under the agreement for the three financial years ended 31 December 2022 are RMB4,530,000 (exclusive of VAT).

On 28 December 2022, in order to streamline the arrangement among abovementioned subsidiary, the Company and Shandong Hongqiao, a directly partially-owned subsidiary of Hongqiao Group, entered the steam purchase agreement in which Shandong Hongqiao and its subsidiaries agreed to supply steam to the Company and its subsidiaries for the period from 1 January 2023 to 31 December 2025, at a price of RMB246 per ton (including VAT). Details refer to the Company's announcement dated 28 December 2022.

(vi) Lease agreements with the Holding Company

For the years ended 31 December 2022 and 2021, 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. The carrying amount of lease liabilities is RMB37,412,000 (2021: RMB47,584,000). During the year ended 31 December 2022, the Group entered into three new lease agreements in respect of renting properties and recognised lease liabilities of RMB4,554,000. During the year ended 31 December 2022, the Group has made lease payment of RMB17,674,000 (2021: RMB17,215,000) to the Holding Company.

In addition, during the year ended 31 December 2021, the Group has made the lease payment of RMB459,000 (2022: nil) to the Holding Company, where the lease is accounted for as a short-term lease.

(vii) Sales of textile product to Holding Company and it's fellow subsidiaries

On 16 October 2020, 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 16 October 2020, it renewed the cotton yarn, grey fabric and denim supply agreement dated 17 October 2017 with a period of three years commencing on 1 January 2021 (the "**Renewed Supply Agreement (Textile) 2020**"). The Renewed Supply Agreement (Textile) 2020 agreed upon a new maximum aggregate annual value of textile products supplied.

36. RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(vii) Sales of textile product to Holding Company and it's fellow subsidiaries (Continued)

Pursuant to the Renewed Supply Agreement (Textile) 2020, 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 annual caps under the Renewed Supply Agreement (Textile) 2020 for the three financial years ending 31 December 2023 are RMB600,000,000 (exclusive of VAT), RMB720,000,000 (exclusive of VAT) and RMB864,000,000 (exclusive of VAT), respectively.

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 December 2021, the Company made an announcement to disclose that Huineng Thermal Power, an indirectly wholly-owned subsidiary of the Hongqiao Group, 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 RMB1.99 per ton (excluding VAT), for the period from 1 January 2022 to 31 December 2024. The annual caps under the agreement for the three financial years ending 31 December 2024 are RMB17,913,000 (exclusive of VAT).

(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 ended 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)

(a) Transactions with related parties (Continued)

Notes: (Continued)

(x) Purchase of textile products from Holding Company and it's fellow subsidiaries

On 17 May 2021, the Company and the Holding Company entered into the Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for a term commencing on 17 May 2021 and ending on 31 December 2023 (both days inclusive), pursuant to which the Holding Company agreed to supply or procure its subsidiaries to supply fabrics, knitted fabrics, apparel and home textiles products (including but not limited to fabrics, knitted fabrics, apparel and home textiles products) to the Company.

The prices of fabrics, knitted fabrics, apparel and home textiles products to be supplied by the Holding Company to the Company shall be determined with reference to the prices at which the same or comparable types of fabrics, knitted fabrics, apparel and home textiles products are supplied by the Holding Company to independent third parties 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 of the Company. The annual caps under the Fabrics, Knitted Fabrics, Apparel and Home Textiles Products Supply Agreement for the period from 17 May 2021 to 31 December 2021 and the two financial years ending 31 December 2023 are RMB50,000,000 (exclusive of VAT), RMB60,000,000 (exclusive of VAT) and RMB70,000,000 (exclusive of VAT), respectively.

Further details of this continuing connected transaction are set out in the Company's announcement dated 17 May 2021.

(xi) Gain on disposal of right-of-use asset

On 28 December 2022, the Company and Weiqiao Lightweight, an indirectly partially-owned subsidiary of Hongqiao Group, entered into the land use right transfer agreement in relation to transfer of the land use right at a consideration of approximately RMB18,956,000. A gain on disposal of RMB18,956,000 was recognised for the transaction. The transaction was completed on the same date.

(b) Balances with related parties

Related party	Nature of balance	2022 RMB'000	2021 RMB'000
Holding Company	Trade receivables	36,855	49,815
	Other receivables	–	1,494
	Other payables	1,481	2,536

(c) Commitments with related parties

At the end of the reporting period, the Group entered into sales agreements with certain fellow subsidiaries for sale commitments amounting to approximately RMB87,948,000 (2021: RMB54,491,000), which are expected to complete the transactions in early 2023.

36. RELATED PARTY TRANSACTIONS (Continued)

(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:

	2022 *RMB'000*	2021 *RMB'000*
Short-term benefits	5,268	5,103
Post-employment benefits	273	251
	5,541	5,354

(e) Guarantees and security

At the end of the reporting period, details of amounts of bank borrowings of the Group guaranteed by related parties were as follows:

	2022 *RMB'000*	2021 *RMB'000*
Holding Company	1,899,500	2,390,000
濱州魏橋鑫興實業有限公司#	300,000	–
	2,199,500	2,390,000

A subsidiary of the Holding Company

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 2022, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB775,307,000 (2021: RMB298,344,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

No unutilised forfeited contributions were available at the year end (2021: nil) to reduce future contributions.

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 changes. 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 2022	**4,044**	**2,761,500**	**48,415**	**2,813,959**
Financing cash flows:				
– Addition	**–**	**4,296,500**	**–**	**4,296,500**
– Repayment	**(137,519)**	**(2,247,500)**	**(17,999)**	**(2,403,018)**
Non-cash changes:				
– Addition	**–**	**–**	**4,554**	**4,554**
– Accrued interest	**140,371**	**–**	**2,992**	**143,363**
At 31 December 2022	**6,896**	**4,810,500**	**37,962**	**4,855,358**

	Interest payable *RMB'000*	Bank borrowings *RMB'000*	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2021	3,418	2,257,000	62,593	2,323,011
Financing cash flows:				
– Addition	–	3,261,500	–	3,261,500
– Repayment	(112,318)	(2,757,000)	(17,540)	(2,886,858)
Non-cash changes:				
– Accrued interest	112,944	–	3,362	116,306
At 31 December 2021	4,044	2,761,500	48,415	2,813,959

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

	Notes	**2022** ***RMB'000***	2021 *RMB'000*
Non-current assets			
Property, plant and equipment		**515,237**	447,286
Right-of-use assets		**1,042**	42
Other intangible assets		**612**	45
Deposits paid for acquisition of property, plant and equipment		**212,552**	–
Investments in subsidiaries	*(a)*	**9,398,990**	11,089,091
Deferred tax assets		**7,788**	7,581
		10,136,221	11,544,045
Current assets			
Inventories		**248,170**	382,611
Trade receivables		**110,314**	261,634
Amounts due from subsidiaries	*(b)*	**3,635,494**	1,311,864
Deposits, prepayments and other receivables		**51,193**	90,340
Pledged deposits		**263,767**	190,236
Cash and cash equivalents		**11,079,081**	10,715,476
		15,388,019	12,952,161
Current liabilities			
Trade payables		**317,063**	807,136
Amounts due to subsidiaries	*(b)*	**3,630,139**	2,530,012
Other payables and accruals		**330,047**	314,858
Lease liabilities		**498**	45
Contract liabilities		**110,008**	72,739
Income tax payable		**21,060**	21,059
Bank borrowings		**4,057,500**	1,892,500
		8,466,315	5,638,349
Net current assets		**6,921,704**	7,313,812
Total assets less current liabilities		**17,057,925**	18,857,857

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

	Notes	**2022**	2021
		RMB'000	*RMB'000*
Equity			
Share capital		**1,194,389**	1,194,389
Reserves	*(c)*	**15,463,518**	17,147,720
Total equity		**16,657,907**	18,342,109
Non-current liabilities			
Lease liabilities		**567**	–
Deferred income		**1,451**	1,748
Bank and other borrowings		**398,000**	514,000
		400,018	515,748
Total equity and non-current liabilities		**17,057,925**	18,857,857

Notes:

(a) As at 31 December 2022, investments in subsidiaries are carried at cost of approximately RMB12,939,945,000 (31 December 2021: RMB12,887,945,000), impairment loss of approximately RMB3,540,955,000 (2021: RMB1,798,854,000) 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	**Statutory surplus reserve**	**Retained profits**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
At 1 January 2021	6,673,380	1,790,765	8,381,240	16,845,385
Profit and total comprehensive income for the year	–	–	375,193	375,193
Final 2020 dividend declared	–	–	(72,858)	(72,858)
At 31 December 2021 and 1 January 2022	**6,673,380**	**1,790,765**	**8,683,575**	**17,147,720**
Loss and total comprehensive expense for the year	**–**	**–**	**(1,469,212)**	**(1,469,212)**
Final 2021 dividend declared	**–**	**–**	**(214,990)**	**(214,990)**
At 31 December 2022	**6,673,380**	**1,790,765**	**6,999,373**	**15,463,518**

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2022 and 2021 are as follows:

Name of subsidiaries	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Direct		Indirect		Principal activities
			2022	2021	2022	2021	
威海魏橋紡織有限公司 Weihai Weiqiao Textile Company Limited* *(note b)*	PRC	RMB148,000,000	100%	100%	-	-	Production and sale of cotton yarn and fabric
Binzhou Industrial Park *(note b)*	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* *(note b)*	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* *(note b)*	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* *(note b)*	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
山東宏杰紡織科技有限公司 Shandong Hongjie Textile Technology Company Limited* *(note b)*	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* *(note b)*	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* *(note b)*	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* *(note b)*	PRC	RMB6,550,000,000	100%	100%	-	-	Production and sale of electricity

* *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
			2022	2021	2022	2021	
魏橋紡織貿易(上海)有限公司 Weiqiao Textile Trading (Shanghai) Company Limited* *(note b)*	PRC	RMB10,000,000	100%	100%	-	-	Trading of textile raw materials and products
威海魏橋能源有限公司 Weihai Weiqiao Energy Company Limited* *(note b)*	PRC	RMB200,000,000	-	-	100%	100%	Production and sale of electricity
山東宏駿紡織有限公司 Shandong Hongjun Textile Company Limited* *(note b)*	PRC	-	100%	100%	-	-	Production and sale of cotton yarn and fabric
山東宏勝紡織有限公司 Shandong Hongsheng Textile Company Limited* *(note b)*	PRC	-	100%	100%	-	-	Production and sale of cotton yarn and fabric
威海宏悅纖維有限公司 Weihai Hongyue Fiber Company Limited* *(note b)*	PRC	-	100%	100%	-	-	Production and sales of cotton yarn and fabric
鄒平宏科智能科技有限公司 Zouping Hongke Intelligent Technology Company Limited* *(note b)*	PRC	RMB1,000,000	100%	-	-	-	Provision of repair services for textile machineries
山東魏橋紡織科技研發中心有限公司 Shandong Weiqiao Textile Technology Research and Development Center Company Limited* *(note b)*	PRC	RMB1,000,000	100%	-	-	-	Research and development of textile products
山東方略貿易有限公司 Shandong Fanglue Trading Co., Ltd* *(note b)*	PRC	RMB50,000,000	100%	-	-	-	Sales of coals

* *For identification purpose only*

Notes:

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

(b) The entity is a wholly-domestic owned enterprise.