魏 橋 紡 織 股 份 有 限 公 司
Weiqiao Textile Company Limited
(Stock Code : 2698)

2016
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)				
	2012	2013	2014	2015[1]	**2016[1]**
Revenue	15,247,956	13,880,642	11,211,146	12,498,205	**14,175,446**
Gross profit	1,037,207	1,205,630	742,819	2,187,631	**2,251,359**
Gross profit margin (%)	6.8	8.7	6.6	17.5	**15.9**
Profit before income tax	663,741	921,775	446,927	1,327,264	**1,514,657**
Net profit attributable to owners of the Company	481,880	628,807	308,243	979,347	**992,706**
Net profit margin (%)	3.2	4.5	2.7	7.8	**7.0**
Basic earnings per share (RMB)	0.40	0.53	0.26	0.82	**0.83**

Note: (1) The financial data for 2015 and 2016 as shown on the table above include the data regarding the electricity and steam business, which leads to the increase in certain data or indicators as compared to those of the previous years.

Assets and liabilities

	As at 31 December (RMB'000)				
	2012	2013	2014	2015[1]	**2016[1]**
Total assets	28,373,669	30,310,462	28,959,365	29,081,434	**31,832,301**
Equity	15,643,874	16,101,848	16,210,478	17,095,184	**17,780,738**
Total liabilities	12,729,795	14,208,614	12,748,887	11,986,250	**14,051,563**
Return on equity[2] (%)	3.1	4.0	1.9	5.7	**5.6**
Current ratio (times)	1.8	2.4	3.3	3.7	**2.7**
Accounts receivable turnover (days)	13	14	9	7	**9**
Inventory turnover (days)	149	185	190	151	**113**
Accounts payable turnover (days)	50	59	43	38	**28**

Note: (1) The financial data for 2015 and 2016 as shown on the table above include the data regarding the electricity and steam business, which leads to the increase in certain data or indicators as compared to those of the previous years.

(2) Calculated based on average equity

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Zhang Hongxia *(Chairman)*
Zhang Yanhong
Zhao Suwen
Zhang Jinglei

NON-EXECUTIVE DIRECTORS

Zhang Shiping
Zhao Suhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wang Naixin
Chen Shuwen
Chan Wing Yau, George

SUPERVISORS

Lv Tianfu
Wang Wei
Wang Xiaoyun

SENIOR MANAGEMENT

Wei Jiakun

COMPANY SECRETARY

Zhang Jinglei

AUDIT COMMITTEE

Chan Wing Yau, George *(Chairman)*
Wang Naixin
Chen Shuwen

REMUNERATION COMMITTEE

Wang Naixin *(Chairman)*
Zhang Hongxia
Chen Shuwen

NOMINATION COMMITTEE

Zhang Hongxia *(Chairman)*
Wang Naixin
Chen Shuwen

AUTHORISED REPRESENTATIVES

Zhao Suwen
Zhang Jinglei

PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADDRESS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

LEGAL ADVISOR AS TO HONG KONG LAW

Luk & Partners in Association with Morgan, Lewis & Bockius

INTERNATIONAL AUDITOR

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Computershare Hong Kong Investor Services Limited
17M 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 2016

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

INVESTOR RELATIONS

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FINANCIAL YEAR END

31 December

FINANCIAL CALENDAR

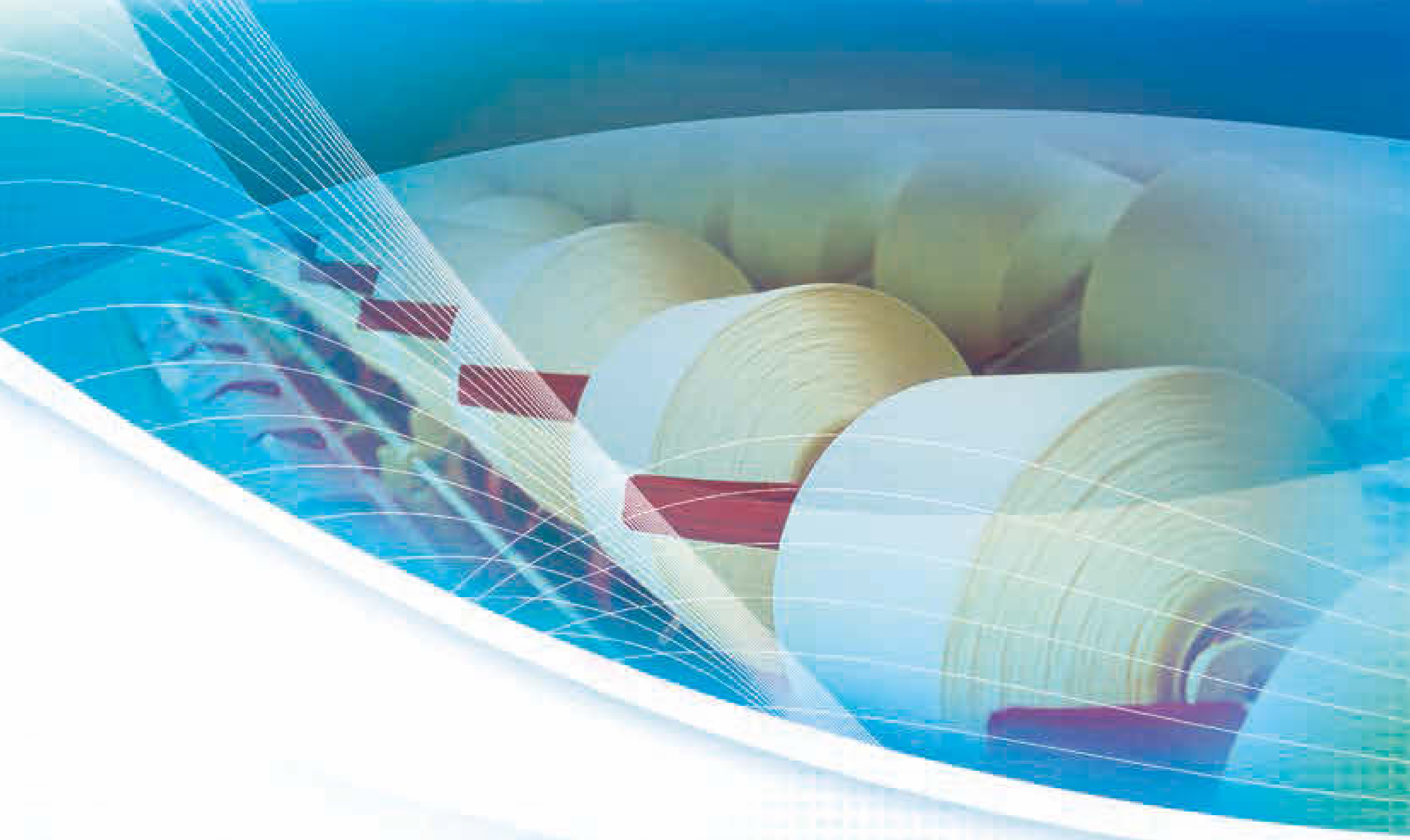
Annual Results Announcement Date
11 August 2017

DATE OF ANNUAL GENERAL MEETING

4 October 2017

DISTRIBUTION DATE OF FINAL DIVIDEND

15 December 2017



CHAIRMAN'S STATEMENT

It is my pleasure to present on behalf of the board (the "Board") of directors (the "Directors") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the audited consolidated results of the Company together with its subsidiaries (collectively as the "Group") for the year ended 31 December 2016 (the "Year" or "Year under Review").

In 2016, we witnessed sluggish overall growth in the global economy due to lackluster consumption demand, and geopolitical uncertainties led to slowdown in global trade growth. The overall PRC economy showed stable and healthy development momentum, with positive results from its structural transformation. On the industry side, Chinese textile industry strived to adapt to the complex economic environment and maintained steady operational performance.

During the Year under Review, and in terms of the export market, affected by several factors such as sluggish recovery in the major markets, an unstable external environment, rising costs incurred by textile enterprises, intensified international competition and decline in product prices, exports of PRC textile products and apparel remained under pressure. According to statistics from the General Administration of Customs of the PRC, the aggregated exports of textile products and apparel of PRC was US$267.2 billion in 2016, representing a year-on-year decrease of 5.9%. Among these, exports of textile products decreased by 3.0% year-on-year to US$106.2 billion, and exports of apparel decreased by 7.7% year-on-year to US$161.0 billion.

In terms of domestic demand, despite the decelerating trend of growth, the PRC economy maintained stable development, with consumption demand providing overall support for market performance. According to statistics from the National Bureau of Statistics of the PRC, the retail sales of apparel, footwear, headwear and knitwear for 2016 by companies above a designated size in China (with annual revenue of over RMB20 million) amounted to RMB1,443.3 billion, representing a year-on-year increase of approximately 7.0%, 2.8 percentage points lower than the growth rate of last year.

In terms of raw materials, cotton price surged after a decline during the Year, showing a volatile and upward trend for the whole Year. During the middle of the Year, cotton price pulled back as a result of the smooth implementation of the cotton reserve policy. At the end of the Year, affected by the inflation and expected depreciation in the Renminbi, cotton price surged to a new record.

In the face of various adverse factors, the Group adhered to the “Sanpin Strategy (三品戰略)” of “enriching product varieties, improving product quality and building its brand name (增品種，提品質，創品牌)” to maintain stable operation by strengthening corporate management, focusing on technology innovation and stepping up efforts in product development and business expansion. In response to the market fluctuations, the Group proactively adjusted its marketing strategies based on market conditions constantly and took initiatives to reduce inventories during the Year. During the Year, the Group recorded revenue of approximately RMB14,175 million, representing an increase of approximately 13.4% over the same period in 2015. Net profit attributable to owners of the Company was approximately RMB993 million, representing an increase of approximately 1.4% over the same period in 2015. Earnings per share was RMB0.83.

CHAIRMAN'S STATEMENT

During the Year, the Group completed the adjustment in its organizational structure and established four wholly-owned subsidiaries by dividing the business units based on various production bases and business sectors, forming independent operating segments of textile and electricity and steam businesses. We believe the above adjustment will help to further strengthen our business management, improve the operation efficiency and enhance performance assessment.

On the side of the textile business, facing industrial structural adjustment and industrial upgrade, the Group seized development opportunities by accelerating technology improvement and promoting intelligent production. The intelligent compact yarn plant of the Group was completed and put into production in November 2016. The plant is equipped with advanced intelligent yarn production equipment, and the number of the workers per ten thousand spindles is reduced to less than ten, effectively lowering labor costs as well as improving intelligence and automation level. The Group stuck to the strategy of developing middle to high-end products, increasing the number of products catering to the market and consumer needs and improving product quality.

With respect to the electricity and steam business, following the acquisition of thermal power assets with an installed capacity of 1,320 MW by the Group during the Year, the total installed capacity reached 2,820 MW and the electricity business expanded significantly. The Group sold excess electricity to the parent group and independent third party clients in the surrounding areas, increasing its revenue streams and achieving a relatively stable profit, which helped to improve the profitability of the Group.

Looking forward into 2017, while the global economy is expected to improve, the external environment will remain challenging and complex with many uncertainties. The growth-stabilizing policies, especially the advancement of supply-side structural reform, will lend support for the PRC economy to maintain growth within a reasonable range. The general trend of consumption upgrades will also provide important market support for development of the textile industry. The further penetration of the "One Belt and One Road" initiative will bring more new trade opportunities for the domestic textile industry. The implementation of the "Made in China 2025" strategy will also promote further transformation and upgrade of Chinese textile industry.

Facing the challenges and opportunities amidst this shifting environment, Weiqiao Textile will make full use of its own characteristics and strengths and continue to focus on innovating management approaches, reducing costs and enhancing efficiency, investing more on research and development and promoting green manufacturing.

CHAIRMAN'S STATEMENT

The Group will advocate entrepreneurship and craftsmanship, and make proactive efforts to introduce high-end talents and teams in research and development and management, so as to improve the corporate management and innovation capability. The Group will also stick to equal emphasis on domestic and export sales and adopt a flexible sales and procurement strategy, in an effort to reduce the impact of volatility in raw material costs on the production and operation of the Group. At the same time, the Group will also continue to optimize the productivity and operations of its own power assets, with an aim to improve its overall profitability and create greater return for its shareholders. The Group will stick to the strategy of refined development by extending its business to the high-end of the industrial chain to improve its development quality and profitability, and meanwhile increase investments in research and development activities and strengthen cooperation in industry-university-research projects to tap into new business fields such as differential and functional textiles, high-tech textiles and composite materials, striving to establish its leading position in product standards, innovation as well as research and development. The Group will continue to fulfill its social responsibilities of energy saving and environmental protection to high standards and strict requirements, promoting energy conservation and consumption reduction, discharge reduction and pollution treatment, clean production and recycled utilization, so as to lay a solid foundation for the sustainable and healthy development of the Group.

On behalf of the management of Weiqiao Textile, I would like to express my gratitude to our shareholders for their unwavering support for the Group. The macroeconomic adjustments in recent years have presented unprecedented challenges to the textile industry. However, we believe that the critical position of the textile industry in the national economy as a traditional pillar and livelihood industry will remain unchanged. Weiqiao Textile will continue to integrate internal and external resources to enhance its competitive edge in domestic and overseas markets, while proactively seeking and exploring new business opportunities, so as to create new growth drivers for the Group. While continuous efforts will be made to increase our intrinsic value and create maximum returns for our shareholders, we are committed to contributing to the sustainable development of society.

Zhang Hongxia
Chairman

Shandong, the PRC
11 August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2016, we witnessed a complex global economic situation with sluggish overall growth and weakened demand in all major markets. The Chinese economy remained stable, achieving continuous progress in the supply-side structural reform. Under this macro backdrop, the Chinese textile industry showed a trend of slow but steady and positive growth, with stable profitability and continuous advancement of industrial and structural adjustment.

According to the statistics released by the National Commercial Information Center of the PRC, retail sales by the top 100 major large-scaled retail enterprises in China throughout 2016 decreased by 0.5% on a year-on-year basis, representing a further decrease of 0.4 percentage point as compared with last year. In terms of category of products, the retail sales of apparels for the Year increased by 0.2% on a year-on-year basis, representing an increase of 0.5 percentage point in growth rate as compared with the corresponding period of last year, while the retail sales volume increased by 0.9% on a year-on-year basis, representing a decrease of 5.5 percentage points in growth rate as compared with the corresponding period of last year.

During the Year under Review, due to the challenging and complex foreign trade environment, the export of the Chinese textile products and apparel faced great downward pressure. According to statistics released by the General Administration of Customs of the PRC, exports of textile and apparel products of the PRC in 2016 amounted to approximately US$267.2 billion, representing a decrease of approximately 5.9% as compared with last year, of which the export of textile and apparel products decreased by 3.0% and 7.7%, respectively. During the Year, exports of textile and apparel products of the PRC to the following countries and regions were summarized as follows:

– Exports to the United States: approximately US$45.0 billion, representing a decrease of approximately 5.7% as compared with the corresponding period of last year.

– Exports to the European Union: approximately US$49.5 billion, representing a decrease of approximately 6.8% as compared with the corresponding period of last year.

– Exports to Japan: approximately US$20.3 billion, representing a decrease of approximately 6.1% as compared with the corresponding period of last year.

– Exports to Hong Kong: approximately US$15.0 billion, representing an increase of approximately 8.4% as compared with the corresponding period of last year.

– Exports to the markets of the Association of Southeast Asian Nations, the Middle East and Africa: approximately US$33.4 billion, US$20.8 billion and US$17.8 billion, respectively, decreased by approximately 6.9%, 11.2% and 12.8%, respectively, as compared with the corresponding period of last year.

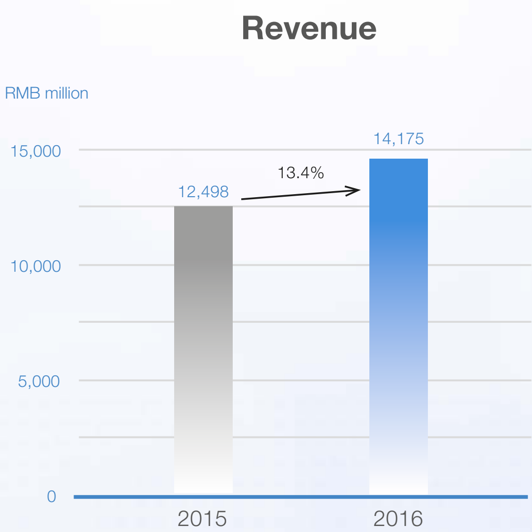
MANAGEMENT DISCUSSION AND ANALYSIS

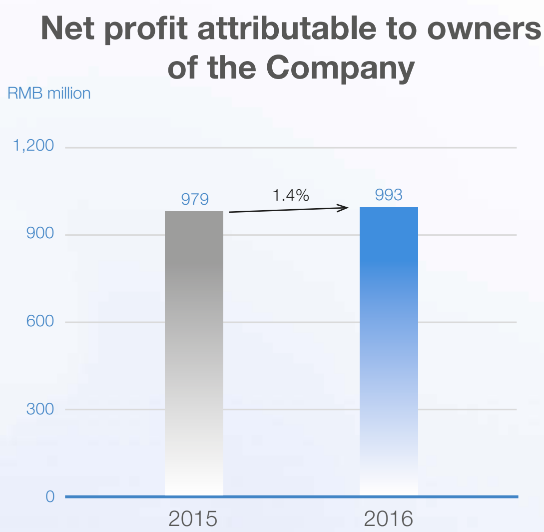
In terms of the raw materials, the cotton price showed an upward trend in general with greater fluctuations in 2016. According to the Cotton A Index, the average price for cotton in China during the Year was approximately RMB14,056 per ton, representing a year-on-year increase of approximately 2.1%. The average global market price for cotton, according to the Cotlook A Index, was approximately 74.22 US cents per pound, representing a year-on-year increase of approximately 5.4%. Domestic and overseas cotton prices showed similar momentum. In the meantime, the gap between the domestic and overseas cotton prices was further narrowed. In the long run, the narrowing gap between the domestic and overseas cotton prices will help improve the overall export competitiveness of the textile manufacturing industry of the PRC.

BUSINESS REVIEW

During the Year under Review, in order to further strengthen business management, improve operation efficiency and enhance performance assessment, the Company completed the adjustment in its organizational structure and established four wholly-owned subsidiaries by dividing the business units of the Company based on various production bases and business sectors, of which three subsidiaries are engaged in production and sales of textile products, while the last controls the operation of the Group's own power assets. Due to the changes in the composition of reportable segments of the Group for the current period as a result of the above-mentioned changes in management structure, reporting process and assessment system, the power generation and electricity sale business became a new reportable segment. The Directors believe that the continuous improvement of internal management mechanism and operation efficiency will lay a solid foundation for the long-term development and help boost the operating results of the Group.

For the years ended 31 December 2016 and 2015, the revenue of the Group and net profit attributable to owners of the Company were as follows:





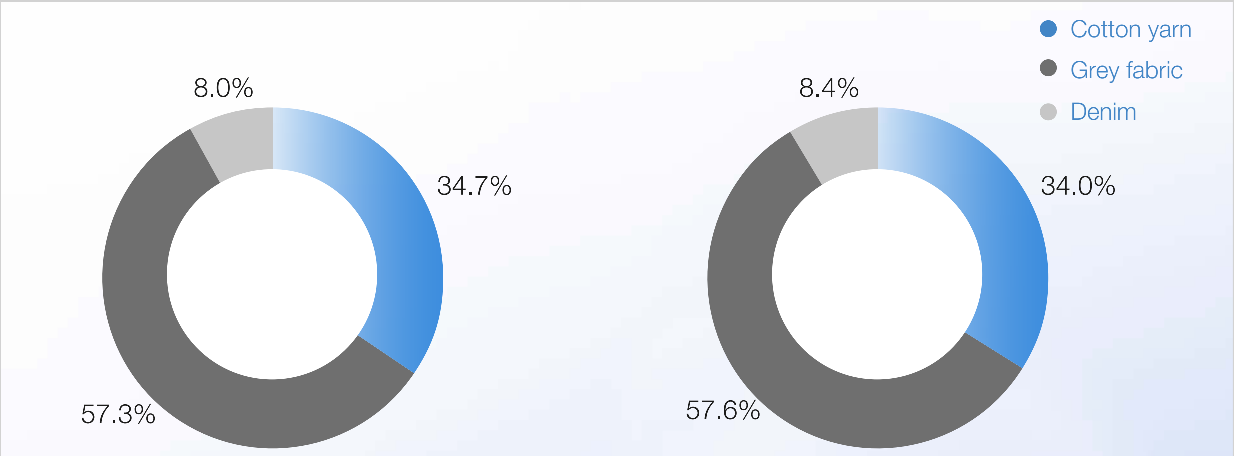
MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, the Group recorded revenue of approximately RMB14,175 million, representing an increase of approximately 13.4% as compared with the corresponding period of last year, and net profit attributable to owners of the Company of approximately RMB993 million, representing an increase of approximately 1.4% as compared with last year. The main reasons for the increase in revenue are the increase in sales volume and increase in sales of electricity due to the Group's timely efforts to adjust its sales strategy and increased efforts in sales promotion. The increase in the net profit attributable to owners of the Company was primarily due to the significant increase in profit from electricity generated from the increase in sales volume of electricity to external customers due to an increase in electricity generation volume as a result of the Group's own thermal power assets.

Textile Business

In 2016, as the sales price of China's textile products was at a low level due to the weak recovery of the global economy and persistently sluggish textile demand, the Group proactively adjusted its sales strategy and reduced some of its inventory products during the Year, resulting in a decrease in gross profit of textile products of the Group.

The charts below are the respective proportion of revenue of the textile business categorized by products for the years ended 31 December 2016 and 2015:



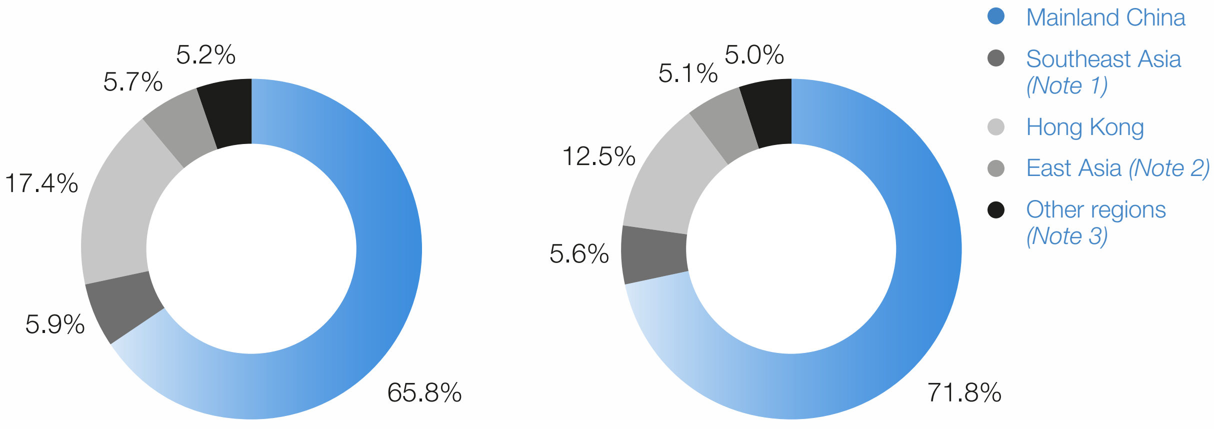
2016
(Revenue of the textile business: approximately RMB10,087 million)

2015
(Revenue of the textile business: approximately RMB9,765 million)

For the year ended 31 December 2016, the proportion of revenue contributed by the Group's cotton yarn, grey fabric and denim remained in line with that as recorded in the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

The chart below is the respective proportion of revenue of the textile business categorized by geographical location for the years ended 31 December 2016 and 2015:



2016
(Revenue of the textile business: approximately RMB10,087 million)

2015
(Revenue of the textile business: approximately RMB9,765 million)

Note 1: Southeast Asia includes Vietnam, Thailand, Malaysia, Indonesia, the Philippines and Burma;

Note 2: East Asia includes Japan and South Korea;

Note 3: Other regions include the US, Europe, Taiwan and Africa.

For the year ended 31 December 2016, the respective proportion of the domestic and overseas revenue of the Group's textile business remained relatively stable, with the proportion of overseas revenue being approximately 34.2% and the proportion of domestic revenue being approximately 65.8% for the Year.

During the Year under Review, the Group adjusted its production plans in a timely manner according to the market conditions. The Group's cotton yarn output was approximately 365,000 tons, representing an increase of approximately 9.9% as compared with the corresponding period of last year; grey fabric output was approximately 868 million meters, representing a decrease of approximately 5.5% as compared with the corresponding period of last year; denim output was approximately 74 million meters, representing a decrease of approximately 8.6% as compared with the corresponding period of last year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Electricity and Steam Business

The profits from the sales of electricity recorded an increase due to the increase in power generation volume, the corresponding increase in the external sales of electricity resulting from the Group's own thermal power assets and the acquisition of thermal power assets completed in May 2016.

In 2016, several subsidiaries were established pursuant to the restructuring arrangement which divided the business units of the Company into several independent legal entities which have to maintain their own books and records, respectively. Thereby, the financial information of the generation and sales of electricity business is available to the management of the Company, who monitors the result of such business as a separate operating segment and makes decisions on the resources allocation and performance assessment. This resulted in a change in the composition of the Group's reportable segments such that generation and sales of electricity was identified as a new reportable segment. The information on the electricity segment is as follows:

As at 31 December 2016, the installed capacity of the Group's thermal power assets amounted to 2,820 MW, representing an increase of approximately 1,320 MW as compared with the corresponding period of last year. In 2016, the power generation of the Group was approximately 12,456 million kWh, representing an increase of approximately 41.6% as compared with the corresponding period of last year; while its electricity sold amounted to approximately 9,789 million kWh, representing an increase of approximately 53.5% over the corresponding period of last year.

During the Year under Review, the average utilization hours of the power generating units of the Group amounted to approximately 6,684 hours, representing an increase of 187 hours from approximately 6,497 hours recorded for the corresponding period last year.

During the Year under Review, the average unit cost of the Group's electricity business was approximately RMB215.5 per MWh, representing an increase of approximately 22.7% from RMB176.2 per MWh as recorded in the corresponding period last year, which was mainly due to the increase in coal price during the Year. The Group will continue to enhance management of the coal price, make appropriate adjustment to the coal inventory level in light of market changes and explore new coal supply channels to enhance its bargaining power and lower the procurement costs.

Pursuant to the requirements of the national environmental protection policies, the Group fully implemented the ultra-low emission ahead of schedule by installing flue gas dedusting facilities and desulphurization and denitrification facilities for all of the Group's power generating units.

Sales of Electricity and Steam

For the year ended 31 December 2016, the revenue of the Group's sales of electricity amounted to approximately RMB4,088 million, representing an increase of approximately 49.6% as compared with the corresponding period of last year. Gross profit thereof was approximately RMB1,911 million, representing an increase of approximately 17.3% as compared to the corresponding period of last year. The increase in revenue and gross profit of the sales of electricity as compared with the corresponding period of last year was mainly attributable to the increase in external sales volume and the increase in gains from sales of electricity as a result of the increase in the electricity generation volume of the Group's own thermal power assets during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin attributable to the major products for the years ended 31 December 2016 and 2015, respectively:

	For the year ended 31 December					
	2016			2015		
Product categories	**Revenue**	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	***%***	*RMB'000*	*RMB'000*	*%*
Cotton yarn	**3,505,824**	**219,031**	**6.2**	3,322,472	270,005	8.1
Grey fabric	**5,776,725**	**16,027**	**0.3**	5,625,137	90,024	1.6
Denim	**804,931**	**104,840**	**13.0**	817,869	198,284	24.2
Electricity and steam	**4,087,966**	**1,911,461**	**46.8**	2,732,727	1,629,318	59.6
Total	**14,175,446**	**2,251,359**	**15.9**	12,498,205	2,187,631	17.5

For the year ended 31 December 2016, the gross profit of the sales of textile products decreased by approximately 39.1% as compared with the corresponding period of last year to approximately RMB340 million. The decrease was primarily due to the fact that the weak recovery of the global economy, the sluggish demand for textile products, the weak market of China's textile products and the sales price of the textile products of the PRC remained low. In the meantime, the Group proactively reduced its inventory by adopting a flexible sales strategy during the Year. As a result, the gross profit of textile products of the Group decreased significantly. The gross profit margin of the Group's textile business was approximately 3.4%, representing a decrease of approximately 2.3 percentage points as compared with the corresponding period of last year. The decrease in gross profit margin was mainly due to the decrease in the sales prices of the Group's products which was affected by the market demand during the Year and resulted in the narrowed gross profit space.

Selling and Distribution Expenses

For the year ended 31 December 2016, the Group's selling and distribution expenses increased by approximately 24.1% to approximately RMB165 million from approximately RMB133 million for the corresponding period of last year. Among these expenses, transportation costs increased by approximately 9.4% to approximately RMB93 million from approximately RMB85 million for the same period of last year, which was mainly due to the increase in the fees for transportation resulting from the increase of the sales volume of textile products of the Group during the Year. Salary of the sales staff was approximately RMB38 million, representing an increase of approximately 40.7% from approximately RMB27 million for the same period of last year. Sales commission was approximately RMB15 million, representing an increase of approximately 114.3% from approximately RMB7 million for the same period of last year, which was primarily due to the increase in commission customers due to the Group's efforts in exploring the emerging markets of textile products.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

For the year ended 31 December 2016, the administrative expenses of the Group were approximately RMB304 million, representing a decrease of approximately 7.3% from approximately RMB328 million for the corresponding period of last year, which was basically in line with that of last year.

Finance Costs

For the year ended 31 December 2016, finance costs of the Group were approximately RMB581 million, representing a decrease of approximately 4.6% from approximately RMB609 million for the corresponding period of last year, which was mainly attributable to the decrease in the borrowing interest rate of the Group.

Liquidity and Financial Resources

As at 31 December 2016, cash and cash equivalents of the Group were approximately RMB11,292 million, representing a decrease of approximately 6.2% as compared with the cash and cash equivalents of approximately RMB12,032 million of the corresponding period of last year, which was mainly attributable to the increase in the capital expenditures due to the Group's acquisition of power assets and the establishment of the new intelligent production workshops during the Year.

The working capital of the Group is mainly financed by the cash inflow from operating activities. For the year ended 31 December 2016, the Group recorded a net cash inflow from operating activities of approximately RMB3,666 million. Net cash outflow for investing activities was approximately RMB5,306 million, and net cash inflow for financing activities was approximately RMB901 million. As at the end of the Year, cash and cash equivalents were approximately RMB11,292 million. The Group will continue to take effective measures to ensure adequate liquidity and financial resources to satisfy business needs, and maintain a stable and healthy financial position.

For the year ended 31 December 2016, the inventory turnover days of the Group were 113 days, representing a decrease of 38 days from 151 days for the same period of last year, which was mainly due to the adjustment of its sales strategy and the proactive initiatives taken to reduce the inventory of textile products by the Group during the Year.

For the year ended 31 December 2016, the average turnover days of the Group's receivables were 9 days, representing an increase of 2 days from 7 days for the year 2015, which was basically in line with that of the corresponding period last year.

For the years ended 31 December 2016 and 2015, the Group did not use derivative financial instruments.

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

For the year ended 31 December 2016, net profit attributable to owners of the Company was approximately RMB993 million, representing an increase of approximately 1.4% from approximately RMB979 million for the corresponding period of last year.

For the year ended 31 December 2016, earnings per share of the Company were RMB0.83, representing an increase of approximately 1.2% from RMB0.82 for the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

The major objective of the Group's capital management is to ensure the ongoing operations capacity and maintain a satisfactory capital ratio in order to support its own business operation and maximize shareholders' interests. The Group continued to focus on its equity and debt mix to ensure the best capital structure that reduces capital costs.

As at 31 December 2016, the debts of the Group were mainly bank borrowings amounting to approximately RMB4,759 million (31 December 2015: approximately RMB3,043 million) and corporate bonds amounting to approximately RMB5,992 million (31 December 2015: approximately RMB5,972 million). The Group had cash and cash equivalents of approximately RMB11,292 million (31 December 2015: approximately RMB12,032 million). As at 31 December 2016, the Group's gearing ratio (net debt (after deducting the interest-bearing bank and other borrowings of cash and cash equivalents) divided by total equity) was approximately 3.0% (31 December 2015: approximately 17.6%).

The Group manages its interest expenses through a fixed rate and floating rate debt portfolio. As at 31 December 2016, approximately 82.9% of the Group's bank loans were subject to fixed interest rates, while the remaining of approximately 17.1% were subject to floating interest rates.

The Group maintains a balance between the continuity and flexibility of funds through bank loans and corporate bonds. At any time, the borrowings due within the upcoming 12-month period of the Group shall not exceed 50.0% of the total borrowings. As at 31 December 2016, approximately 35.6% of the Group's borrowings will mature within one year.

As at 31 December 2016, the Group's bank loans were mainly denominated in Renminbi. Cash and cash equivalents were denominated in Renminbi and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 3.1% of the total amount.

Employees and Remuneration Policies

As at 31 December 2016, the Group had a total of approximately 63,000 employees, representing a decrease of approximately 6,000 employees as compared with that of last year. Such decrease in the number of the staff was mainly normal employee turnover during the Year. Total staff costs of the Group during the Year amounted to approximately RMB2,852 million, representing an increase of approximately 10.3% from approximately RMB2,585 million as recorded for the corresponding period of last year, which was mainly attributable to the increase of salary for the staff by the Group.

The remuneration of the Group's employees is determined based on their performance, experience and the prevailing industry practice. The management of the Group will also periodically review the 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 training and skills training, to staff 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 and bank borrowings are denominated in US dollars. For the year ended 31 December 2016, approximately 24.3% of the Group's revenue and approximately 13.1% of the costs of the purchase of cotton were denominated in US dollars. For the year ended 31 December 2016, the Group recorded a net exchange gain of approximately RMB44 million due to the depreciation of RMB. 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 will have sufficient foreign currency to meet its demands.

Contingent Liabilities

As at 31 December 2016 and 2015, the Group did not have any significant contingent liabilities.

Taxation

For the year ended 31 December 2016, the tax of the Group increased from approximately RMB350 million in 2015 to approximately RMB526 million, representing an increase of approximately 50.3%. Such increase in tax was mainly attributable to the derecognition of deferred tax assets recognised during the previous year as it became due during the Year, as well as the recognition of deferred income tax assets in respect of tax losses of certain subsidiaries by the Group at the end of the Year after careful consideration.

Wealth Management Products

On 22 April 2015, the Company as the assets trustor entered into an asset management agreement with CITIC-CP Asset Management Co., Ltd. (中信信誠資產管理有限公司) as the assets manager and China CITIC Bank Corporation Limited, Shanghai Branch (中信銀行股份有限公司上海分行) as the assets trustee in relation to the management of the entrusted assets. In accordance with the asset management agreement, the Company made the initial investment of RMB499 million and the further investment of RMB799 million on 22 April 2015 and 29 June 2015, respectively. The expected annual rates of return of the initial investment and the further investment are both 7%. The management period of the entrusted assets was from 23 April 2015 to 29 December 2016. During the Year, the profit received by the Company amounted to approximately RMB87 million. The entrusted assets were invested in cash assets, bonds financial assets and other financial assets with fixed income. Please refer to the announcements of the Company dated 22 April 2015 and 29 June 2015 for details on the wealth management products.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 within the Group is responsible for identifying and assessing the risks involved in its respective operation. The audit committee of the Company will supervise and evaluate the risk management policies implemented by the Group and monitor the performance of such risk management system.

ENVIRONMENTAL POLICIES

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

In light of the waste water discharged during production of denim, the Group has installed waste water treatment and recycling equipments, 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 equipments in the power plants to reduce emission. In addition, the Group has installed sound-proof devices to reduce 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 locate 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 2016 and up to the date of this annual report, save as disclosed in the section headed "Connected Transactions" in 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 pre-employment and on-the-job training as well as promotion opportunities to 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 taken great care 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 with 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 effective customer network 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. The Group has set up a sales and marketing team covering over 20 provinces and cities across the country and over 20 overseas countries and regions where the Group's customers are located.

SUBSEQUENT EVENTS

Suspension of Trading in the Shares

On 10 March 2017, the former auditor of the Company (the "Former Auditor") issued letters (the "Letters") to the Board and the audit committee of the Company, respectively, on certain matters which they believed may affect the accuracy of the Company's financial statements (the "Audit Findings"). Given the date of receipt of the Letters was close to 31 March 2017, which was the deadline of the Company's release of the 2016 annual results, the Company was unable to sort out and address the Audit Findings through verification under the assistance of relevant professional institutions or the Former Auditor according to the advice from the Former Auditor. Therefore, the Company was not able to publish the 2016 annual results on or before 31 March 2017. Please refer to the Company's announcement dated 31 March 2017 for further details. Trading in the Company's shares on the Stock Exchange was suspended from 9:00 a.m. on Wednesday, 22 March 2017 to 9:00 a.m. on Monday, 14 August 2017.

On 20 June 2017, the Board received a letter from the Stock Exchange, in which the Stock Exchange stated the following conditions (the "Resumption Conditions") for the resumption of trading in the shares of the Company on the Stock Exchange: (a) to address the Audit Findings; (b) to publish all outstanding financial results and address any audit qualifications; (c) to demonstrate that the Company has put in place adequate internal control systems to meet the obligations under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"); and (d) to inform the market of all material information.

Resumption of Trading in the Shares

The Company has taken appropriate measures to fulfill all the Resumption Conditions and resumed trading in the Company's shares on the Stock Exchange at 9:00 a.m. on Monday, 14 August 2017. The shareholders and potential investors of the Company should refer to the announcement of the Company titled "Fulfilment of All Resumption Conditions and Resumption of Trading" published on Friday, 11 August 2017 for details.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

In 2017, under the backdrop of interest hike in the U.S., intensified geopolitical risks and rising protectionism, the global economy is expected to maintain a slow recovery pace. The overall domestic economy is expected to maintain stable and positive development momentum and the "One Belt and One Road" and "Made in China 2025" strategies will become the important engines for economic development.

On the side of the textile business, with the narrowing gap between domestic and overseas cotton prices, it is expected that the export competitiveness of Chinese textile enterprises will be enhanced. The textile industry of the PRC is expected to be able to maintain stable development momentum, with the higher demand from domestic residents for textile and apparel product quality. Adhering to its strategy of placing equal emphasis on domestic sales and overseas exports, the Group will optimize its trade structure. On the export front, the Group will focus on stabilizing market share and optimizing export product mix, while domestic efforts will be made to explore further in middle to high-end markets and optimize the product mix by focusing on market demands.

In terms of overall strategy, adhering to a market-oriented approach, the Group will deepen structural adjustments, promote intelligent manufacturing and pursue "green development". With respect to daily operations, the Group will continue to improve the overall management and operation efficiency, with an aim to make better use of all kinds of available resources. The Group will source cotton globally and improve cost controls in line with changes in the market for raw textile materials, so as to reduce the impact of cotton price fluctuations on operating results. Leveraging on the Group's consistently high quality products and scale advantages, the Group will improve its order delivery capability and bargaining power. Efforts will be stepped up to promote equipment and technology upgrade and transformation, increase labor efficiency and reduce labor costs. The Group will strictly comply with the requirements of energy conservation and environmental protection, in an effort to promote "green manufacturing".

By leveraging its positive brand image, extensive operational experience, sufficient cash flow and healthy financial position, the Group is confident that it can improve its core competitiveness, seize strategic opportunities arising from industry adjustment and upgrading, advance the "Sanpin Strategy (三品戰略)" of "enriching product varieties, improving product quality and building brand name (增品種、提品質、創品牌)", and maintain the healthy, steady and sustainable development.

On the side of electricity business, with the deeper national reform of the electricity industry and gradually open regulatory policies of supply of electricity, it is expected that the electricity business will bring the Group additional revenue and profit. By keeping abreast with and conducting in-depth study on the latest development of the market condition and national policy, the Group will adopt a market-oriented approach and implement flexible pricing policy, striving to maximize commercial benefits for the Company and its shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Zhang Hongxia

Ms. Zhang Hongxia, aged 45, 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, and is responsible for the overall strategic planning of the Group. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. She had over 22 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"), the director of Binzhou Weiqiao Property Company Limited (濱州魏橋置業有限公司), the chairman of Shandong Weilian Printing and Dyeing Company Limited (山東魏聯印染有限公司) ("Weilian Print"), the director and the general manager of Shandong Huibin Cotton Spinning and Dyeing Company Limited (山東慧濱棉紡漂染有限公司) ("Huibin Dyeing"), the director and the general manager of Shandong Weiqiao Mianye Company Limited (山東魏橋棉業有限公司) (from 30 September 2003 to 25 December 2012), the chairman and 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"), and the chairman and the executive director of Weihai Weiqiao Textile Company Limited (威海魏橋紡織有限公司) ("Weihai Weiqiao"). 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), 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), the chairman and general manager of Shandong Binteng Textile Company Limited (山東濱藤紡織有限公司) (from 12 March 2004), 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) as well as the general manager (from December 2003) and the executive director (from February 2014) of Weihai Industrial Park. Currently, Ms. Zhang is also the vice chairman of the 5th session of The Hong Kong General Chamber of Textiles, the vice president of the 6th session of the China Chamber of Commerce for Import & Export of Textiles and Apparel and the vice president of China Cotton Textile Association. Mr. Zhang Shiping is her father and Ms. Zhang Yanhong is her younger sister.

Zhang Yanhong

Ms. Zhang Yanhong, aged 41, is an executive Director of the Company. She graduated from Shandong University (山東大學) and obtained a professional diploma in computer and its application. She further obtained a professional diploma in computer application from Renmin University of China in 1996, a senior diploma in Innovative Management MIA from senior research class of Tsinghua University in 2006 and a master degree in business administration for senior management from Dalian University of Technology in July 2006. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. Ms. Zhang had over 16 years of management experience in the cotton textile industry. Ms. Zhang once acted as the general manager and the chairman of Weihai Industrial Park and the chairman of Weihai Weiqiao. Ms. Zhang has also been the general manager of Weihai Weiqiao since December 2013 and an executive director of Weihai Weiqiao since March 2015. She has been a director of Weihai Industrial Park from 21 February 2014 and a director of Holding Company since October 2012. Mr. Zhang Shiping is her father and Ms. Zhang Hongxia is her elder sister.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zhao Suwen

Ms. Zhao Suwen, aged 43, is an executive Director and the chief financial officer of the Company. She graduated from Shandong Normal University (山東師範大學) and obtained a professional diploma in business administration. She is a qualified economist. Ms. Zhao obtained the chief financial officer (CFO) advanced study graduation certificate from School of Continuing Education, Tsinghua University on 11 October 2008. She is responsible for the supervision of the Group's finance and accounting affairs. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. She had over 23 years of experience in the cotton textile industry. She previously worked at Weiqiao Cotton Spinning Factory as an accountant for about 5 years and as the manager of the financial department of the Company. She is currently also a director of Holding Company (from October 2012). Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

Zhang Jinglei

Mr. Zhang Jinglei, aged 40, 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, and worked in the sales department of the Company from September 1998 to September 2000. He has successively worked in the securities office, production technology section and the securities department since October 2000. He has engaged in corporate governance of the Company for years and participated in relevant trainings provided by domestic and overseas securities regulatory authorities. He was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. 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") (stock code: 1378.HK).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Zhang Shiping

Mr. Zhang Shiping, aged 70, graduated from Anhui College of Finance and Trading (安徽財貿學院) and obtained a professional diploma in cotton testing. He is a qualified senior economist. He joined the Company in 1999. He was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. He previously held the positions of workshop supervisor, head of the production division, deputy head and head of No. 5 Oil and Cotton Factory, party secretary and head of Weiqiao Cotton Spinning Factory, the general manager of the Holding Company, the Chairman of the Company, the chairman of Weilian Print, the chairman of Zouping County Daixi Shanzhuang Co., Ltd., the chairman of Binzhou Weiqiao Salt Industry Development Co., Ltd., the chairman of Shandong Weiqiao Tekuanfu Printing and Dyeing Co., Ltd. (山東魏橋特寬幅印染有限公司) ("Tekuanfu"), the chairman of Shandong Weiqiao Garment Co., Ltd. (山東魏橋服裝有限公司) ("Weiqiao Garment"), the chairman of Binzhou Weiqiao Aluminum Technology Co., Ltd. (濱洲魏橋鋁業科技有限公司), the chairman of Shandong Weiqiao Elite Garment Co., Ltd. (山東魏橋創杰服裝有限公司) ("Elite Garment"), the director of Huibin Dyeing, the director of Binzhou Industrial Park (from 26 November 2001 to May 2010), the chairman of Weihai Weiqiao (from 25 July 2001 to May 2010), the chairman of Profit Long Investment Limited (保恒俐投資有限公司) and the party secretary of Zouping County Supply and Marketing Cooperation Union (鄒平縣供銷合作社聯合社) (from 8 March 1998 to 12 February 2014). He is currently also the chairman of Shandong Hongqiao New Material Co., Ltd. (山東宏橋新型材料有限公司) ("Shandong Hongqiao") (from 27 July 1994), the chairman of the Holding Company (from 14 April 1998), the chairman of Shandong Weiqiao Investment Holdings Company Limited (previously known as Zouping Supply and Marketing Investment Company Limited (鄒平供銷投資有限公司)), the chairman of China Hongqiao Holdings Limited (中國宏橋控股有限公司), the chairman of Weiqiao Pioneering (Hong Kong) Import & Export Company Limited (魏橋創業(香港)進出口有限公司), and the chairman and an executive director of China Hongqiao (stock code: 1378.HK). Mr. Zhang Shiping was a representative of the Ninth, Tenth and Twelfth National People's Congress, and was granted the title of "National Labour Model" by the State Council in 1995 and was rated as one of the "2015 Top Ten Economic Figures in China" in 2016. He is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong.

Zhao Suhua

Ms. Zhao Suhua, aged 47, graduated from Adult Education College of Qingdao University (青 島 大 學), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She was appointed and re-elected as a Director at the Company's annual general meeting held on 28 May 2015. She had over 19 years of management experience in the cotton textile industry. She had been the supervisor of the production technical department and head of the production technical department of the Company (from May 2000 to February 2006), and is now the standing deputy general manager of the sales department of the Company (since February 2006). Ms. Zhao Suhua is the elder sister of Ms. Zhao Suwen.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George

Mr. Chan Wing Yau, George, aged 62, graduated from Waterloo University in Canada and obtained a bachelor degree in mathematics. Mr. Chan served as the executive director of China Golden Development Holdings Limited (中國金展控股有限公司), and served as the assistant vice president of William M. Mercer Ltd. (偉世服務顧問有限公司), the director of Jardine Fleming Investment Services Ltd. (怡富投資服務有限公司), the executive director of HSBC Asset Management Ltd. (滙豐投資管理有限公司), a member of the Central Policy Unit of Hong Kong Government (香港政府中央政策組), a member of the Consumers Litigation Fund Executive Committee (消費者訴訟基金執行委員會), president of the Rotary Club of Tsim Sha Tsui East (國際扶輪社香港尖沙咀東), the director of Peregrine Asset Management Ltd. (百富勤資金管理有限公司), a board member of Hong Kong Ocean Park (香港海洋公園董事局), the chairman of Hong Kong Ocean Park Investment Committee (香港海洋公園投資委員會), the director, general manager and chief investment officer of Dao Heng Fund Management Co., Ltd. (道亨基金管理有限公司), the chairman of China Sub-Committee of the Hong Kong Investment Funds Association (香港投資基金公會中國事務委員會), a member of the Financial Committee of Hong Kong Trade Development Council (香港貿易發展局金融委員會), a member of Sir McLehose Trust Fund Investment Committee (麥理浩爵士信託基金投資委員會), a convener of Sir Robert Black Trust Fund Investment Committee (柏立基爵士信託基金投資委員會) and 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), as well as a member of the Chinese People's Political Consultative Committee of Yuexiu District, Guangzhou City. He is currently the chairman and chief executive officer of Capital Focus Asset Management Limited (匯駿資產管理有限公司). Mr. Chan is also the independent non-executive director of Infinity Development Holdings Company Limited (星謙發展控股有限公司) (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 appointed and re-elected as an independent non-executive Director at the Company's annual general meeting held on 28 May 2015, with the term of his appointment effective from 28 May 2015.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wang Naixin

Mr. Wang Naixin, aged 65, graduated from Qufu Teachers College (曲阜師範學院) and obtained a professional diploma in politics. He is qualified as a professor. Since 1993, he has been teaching and researching on several areas, such as corporate management, sales and marketing as well as training in the textile industry. He once served as the party secretary in Binzhou Teacher's College (濱州師範專科學校). He was appointed as an independent non-executive director at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent non-executive Director at the Company's annual general meeting held on 28 May 2015.

Chen Shuwen

Mr. Chen Shuwen, aged 62, 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 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 vice 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 until 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) as well as 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). 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) (stock code: 002204) (from December 2012 to February 2015), Yingkou Port Liability Co., Ltd. (營口港務股份有限公司) (stock code: 600317) (from October 2006 to April 2013) and Dalian Dafu Enterprises Holdings Co., Ltd. (大連大福控股股份有限公司) (stock code: 600747) (from September 2008 to August 2013), respectively. Mr. Chen is currently 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) (since October 2010), as well as an independent non-executive director of Sinofortune Financial Holdings Limited (華億金控集團有限公司) (stock code: 8123.HK) (since September 2011). Mr. Chen is a qualified PRC lawyer currently practicing at Liaoning Tianhe Law Firm (遼寧天合律師事務所). He has been approved to be an independent non-executive Director of the Company at the annual general meeting of Weiqiao Textile Company Limited held on 27 May 2014.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Lv Tianfu (Independent Supervisor)

Mr. Lv Tianfu, aged 82, graduated from Shanghai Dynamic Machinery Special School (上海動力機械專科學校) majoring in diesel engine. He is a qualified senior engineer. He served as a technician in Jinan Diesel Engine Factory (濟南柴油機廠), a supervisor of Educational Research Office of Shandong Supply and Marketing Cooperation School (山東供銷合作學校教研室), a technician, an engineer, a senior engineer, a department head, a manager and a deputy director of Shandong Binzhou Supply and Marketing Cooperative (山東省濱州地區供銷合作社), the committee member and deputy chief of Shandong Binzhou Local Intermediate Engineer Technician Assessment Committee (山東省濱州地區中級工程技術職稱評委會) as well as the consultant to general manager of Shandong Bohai Oil & Grease Industry Co. (山東渤海油脂工業公司). He was appointed as an independent Supervisor at the Company's extraordinary general meeting held on 12 February 2003. He was appointed and re-elected as an independent supervisor at the Company's annual general meeting held on 28 May 2015. He currently does not hold any other position in the Group.

Wang Wei (Independent Supervisor)

Ms. Wang Wei, aged 76, graduated from Qingdao Weaving School (青島紡織專科學校) and obtained a professional diploma majoring in cotton spinning. She is a qualified senior engineer. She served as the workshop supervisor at Xinjiang Urumqi "July 1" First Cotton Weaving Plant (新疆烏魯木齊市「七一」第一棉紡織廠), the workshop supervisor and an engineer of Shandong Linyi Cotton Weaving Factory (山東省臨沂棉紡織廠), an engineer of the education division of Shandong Province Weaving Industrial Office (山東省紡織工業廳教育處), the manager of Shandong Weaving Industrial Office Cotton Textile Dyeing and Printing Co. (山東省紡織工業廳棉紡織印染公司), a supervisor of the coordinating office of Shandong Province Weaving Industrial Office (山東省紡織工業廳協作辦), the manager and a senior engineer of Shandong Weaving Industrial Office Economy and Technology Development Co. (山東省紡織工業廳經濟技術開發公司), the general manager and a senior engineer of Shandong Weaving Industrial Office Weaving Industry Group Co. (山東省紡織工業廳紡織實業總公司) as well as the head and chief engineer of the production technical division of Shandong Weaving Industrial Office (山東省紡織工業廳生產技術處). She was appointed as an independent supervisor at the Company's extraordinary general meeting held on 12 February 2003. She was appointed and re-elected as an independent supervisor at the Company's annual general meeting held on 28 May 2015. She currently does not hold any other position in the Group.

Wang Xiaoyun

Ms. Wang Xiaoyun, aged 52, graduated from Adult Education College of Qingdao University (青島大學), and obtained a professional diploma in textile engineering management. She joined the Company in 1999. She had over 22 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) and the non-executive director of the Company (from 30 May 2008 to 29 May 2012). She was appointed as a supervisor at the Company's annual general meeting held on 28 May 2015. She is now the head of the production technical department of the Company (since February 2006).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Wei Jiakun, aged 50, was appointed as the general manager of the Company on 18 November 2014. Mr. Wei is responsible for supervising the Group's general operation and formulating the Group's business strategies, as well as overseeing the Group's production, operation and marketing of the Group's products. He joined the Company's predecessor, Weiqiao Cotton Spinning Factory (位橋棉紡廠) in 1986 and had over 27 years of experience in cotton textile industry. Mr. Wei had served as the workshop supervisor and the director in the spinning mill of Weiqiao Cotton Spinning Factory (位橋棉紡廠) from September 1990 to October 2001, the general manager of Weihai Weiqiao from November 2001 to September 2002, the deputy general manager of Weiqiao Industrial Park of the Company from October 2002 to January 2005, the general manager of Zouping No.2 Industrial Park of the Company from February 2005 to April 2009 and the general manager of Binzhou Industrial Park from May 2009 to November 2014. Currently, he also serves as the director of the Holding Company.

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the production, sales and distribution of cotton yarn, grey fabric and denim as well as electricity business. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended 31 December 2016 and the consolidated financial position of the Group as at 31 December 2016 are set out in the audited financial statements on pages 70 to 72 in this annual report.

The Directors recommended the payment of a final dividend of RMB0.28 (inclusive of tax) per share (the "2016 Final Dividend") to shareholders of the Company whose names appear on the register of members of the Company as at close of business on 10 November 2017 (Friday), and the dividend will be paid on or before 15 December 2017 (Friday). The 2016 Final Dividend is subject to the approval at the coming annual general meeting of the Company. According to the relevant regulations in the PRC and as disclosed in the Company's prospectus, the Group's net profit after tax can only be distributed as dividends after making up prior years' cumulative losses, if any, and making allowance for the statutory surplus reserve, general reserve fund, employee's bonus, welfare fund and enterprise expansion fund.

According to the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), which took effect on 1 January 2008, its implementation rules and the relevant interpretation by tax authorities in the PRC, when a company distributes the final dividends to non-resident enterprise shareholders and natural person shareholders whose names appear on the H-share register of a company, such company is required to withhold and pay on behalf of such shareholders an enterprise income tax at the rate of 10% in general (except as required otherwise by the laws, regulations and tax treaties regarding the tax revenue). Any shares registered in the name of a non-person shareholder, including Hong Kong Securities Clearing Company Nominees Limited, other nominee or trustee, or other organisation and group, are deemed as shares held by non-resident enterprise shareholders. As such, the dividends that he or she is entitled to are subject to the enterprise income tax.

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

For the distribution of dividends, dividends for holders of domestic shares will be distributed and paid in RMB, while dividends for H Shares will be declared in RMB but paid in Hong Kong dollars ("HK$") (conversion of RMB into HK$ shall be calculated on the average price of the medium prices of the conversion of RMB into HK$ announced by the People's Bank of China within five working days prior to and including Friday, 10 November 2017).

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 2012, 2013 and 2014, and from the audited consolidated financial statements of the Group for the year ended 31 December 2015 and the year ended 31 December 2016 on pages 70 to 72 of this annual report is set out below:

Results

	For the year ended 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	15,247,956	13,880,642	11,211,146	12,498,205	**14,175,446**
Cost of sales	(14,210,749)	(12,675,012)	(10,468,327)	(10,310,574)	**(11,924,087)**
Gross profit	1,037,207	1,205,630	742,819	2,187,631	**2,251,359**
Other income and gains	794,410	865,350	900,701	232,339	**325,201**
Selling and distribution expenses	(206,211)	(204,199)	(159,054)	(132,683)	**(165,379)**
Administrative expenses	(252,398)	(283,578)	(297,710)	(327,570)	**(304,017)**
Other expenses	(84,216)	(99,265)	(111,440)	(27,849)	**(12,740)**
Finance costs	(628,886)	(566,439)	(637,728)	(609,142)	**(581,415)**
Share of profit of an associate	3,835	4,276	9,339	4,538	**1,648**
Profit before tax	663,741	921,775	446,927	1,327,264	**1,514,657**
Tax	(184,752)	(294,857)	(139,914)	(349,654)	**(526,445)**
Profit and total comprehensive income for the year	478,989	626,918	307,013	977,610	**988,212**
Profit and total comprehensive income attributable to:					
Owners of the Company	481,880	628,807	308,243	979,347	**992,706**
Non-controlling interests	(2,891)	(1,889)	(1,230)	(1,737)	**(4,494)**
	478,989	626,918	307,013	977,610	**988,212**

REPORT OF THE DIRECTORS

Assets and liabilities

	As at 31 December				
	2012	2013	2014	2015	**2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total assets	28,373,669	30,310,642	28,959,365	29,081,434	**31,832,301**
Total liabilities	12,729,795	14,208,614	12,748,887	11,986,250	**14,051,563**

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year ended 31 December 2016 are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the Company's share capital during the year ended 31 December 2016 are set out in Note 33 to the consolidated financial statements.

The Company does not have any share option scheme.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities during the year ended 31 December 2016.

REPORT OF THE DIRECTORS

RESERVES

Details of changes in the reserves of the Company and the Group during the year ended 31 December 2016 are set out in Note 39 to the consolidated financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2016, in accordance with the PRC Company Law and the China Accounting Standards for Business Enterprises and other regulations, an amount of about RMB6,673 million stood to the credit of the Company's capital reserve account, and an amount of about RMB1,636 million stood to the credit of the Company's statutory surplus reserve funds. In addition, according to the Articles of Association, the Company had retained profits of about RMB8,075 million for distribution as dividend.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, sales to the Group's five largest customers accounted for approximately 35.3% of the Group's total sales for the year ended 31 December 2016, while sales to its largest customer accounted for approximately 20.3% of the Group's total sales for the year ended 31 December 2016.

During the year ended 31 December 2016, purchases from the Group's five largest suppliers accounted for approximately 63.2% of the Group's total purchases for the year ended 31 December 2016, while purchases from the Group's largest supplier accounted for approximately 28.4% of the Group's total purchases for the year ended 31 December 2016.

The Group has sold certain products to Holding Company, its subsidiaries and associates (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 2016, did a Director, his/her associate(s) or a shareholder, which to the knowledge of the Directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

EMOLUMENTS OF DIRECTORS

Except for Mr. Wang Naixin (an independent non-executive Director), there was no arrangement under which a Director has waived or agreed to waive any emoluments. Details of emoluments of the Directors are set out in Note 13 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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

Each of the executive Directors, supervisors (excluding the independent 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 Directors, independent non-executive Directors and independent supervisors 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.

Save as mentioned above, the Company has not entered into any service contract with any of the Directors and supervisors which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

The Directors, supervisors and senior management as at the date of this annual report and their respective term of office are as follows:

Executive Directors:

Zhang Hongxia	Until the date of annual general meeting for the year of 2017
Zhang Yanhong	Until the date of annual general meeting for the year of 2017
Zhao Suwen	Until the date of annual general meeting for the year of 2017
Zhang Jinglei	Until the date of annual general meeting for the year of 2017

Non-executive Directors:

Zhang Shiping	Until the date of annual general meeting for the year of 2017
Zhao Suhua	Until the date of annual general meeting for the year of 2017

Independent non-executive Directors:

Wang Naixin	Until the date of annual general meeting for the year of 2017
Chen Shuwen	Until the date of annual general meeting for the year of 2016
Chan Wing Yau, George	Until the date of annual general meeting for the year of 2017

Supervisors:

Lv Tianfu *(Independent supervisor)*	Until the date of annual general meeting for the year of 2017
Wang Wei *(Independent supervisor)*	Until the date of annual general meeting for the year of 2017
Wang Xiaoyun	Until the date of annual general meeting for the year of 2017

Senior management:

Wei Jiakun *(General manager)*	Until 18 November 2017

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographies of each of the Directors, supervisors and senior management are set out on pages 23 to 29 in this annual report.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN CONTRACTS

Save for the transactions described in Note 37, headed "Related Party Transactions", to the consolidated financial statements and the section headed "Connected Transactions" below, no contract of significance, which was significant in relation to the business of the Group, to which the Company or any of its subsidiaries was a party and in which any Directors, supervisors or senior management had a material interest, whether directly or indirectly, subsisted during or at the end of 2016.

CONTRACTS OF SIGNIFICANCE

Save for those transactions described in Note 37, headed "Related Party Transactions", to the consolidated financial statements and the section headed "Connected Transactions" below, there is no contract of significance between the Company (or any of its subsidiaries) and its controlling shareholder (or any of its subsidiaries) or among the controlling shareholders of the Company (or any of its subsidiaries), and there is no contract of significance for the provision of services to the Company (or any of its subsidiaries) by a controlling shareholder of the Company (or any of its subsidiaries).

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, so far as known to any Directors, supervisors and chief executives of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have 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 (the "SFO") or, were directly or indirectly interested in 10% or above of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group or had any option in respect of such capital:

Interests in the domestic shares of the Company:

Name of Shareholder	**Number of domestic shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2016** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2016** *(%)*
Holding Company	757,869,600	97.07	63.45
Weiqiao Investment	757,869,600 *(Note 2)*	97.07	63.45

Interests in the H Shares of the Company:

Name of Shareholder	Type of interest	Number of H Shares *(Note 3)*	Approximate percentage of total issued H share capital as at 31 December 2016 *(%)*	Approximate percentage of total issued share capital as at 31 December 2016 *(%)*
Brandes Investment Partners, L.P.	Investment manager	74,267,862 (Long position) *(Note 4)*	17.96	6.22
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) *(Note 5)*	9.93	3.44

Note 1: Unlisted shares.

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

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

Note 4: These 74,267,862 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.

Note 5: These 41,073,100 H Shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.

Save as disclosed above, to the best knowledge of the Directors, supervisors and the chief executives of the Company, as at 31 December 2016, there was no other person (not being a Director, supervisor 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.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES

As at 31 December 2016, the interests of the Directors, supervisors or chief executives of the Company in the shares, underlying shares or 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 or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to 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 Companies ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in the domestic shares of the Company:

	Type of interest	**Number of domestic shares** *(Note 1)*	**Approximate percentage of total issued domestic share capital as at 31 December 2016** *(%)*	**Approximate percentage of total issued share capital as at 31 December 2016** *(%)*
Zhang Hongxia *(Executive Director/Chairman)*	Beneficial	17,700,400	2.27	1.48
Zhang Shiping *(Non-executive Director)*	Beneficial	5,200,000	0.67	0.44

Note 1: Unlisted shares.

Long positions 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 2016** *(%)*
Zhang Shiping *(Non-executive Director)*	Holding Company	Beneficial	31.59
Zhang Hongxia *(Executive Director)*	Holding Company	Beneficial and spouse *(Note 1)*	9.73 *(Note 1)*
Zhang Yanhong *(Executive Director)*	Holding Company	Beneficial	5.63
Zhao Suwen *(Executive Director)*	Holding Company	Beneficial	0.38
Zhao Suhua *(Non-executive Director)*	Holding Company	Spouse *(Note 2)*	4.93 *(Note 2)*

Note 1: These 112,000,000 shares of the Holding Company will be beneficially owned by Ms. Zhang Hongxia, who is deemed to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen, under the SFO.

Note 2: Ms. Zhao Suhua is deemed to be interested in the 78,922,000 shares directly held by her husband, Mr. Wei Yingzhao, under the SFO.

Save as disclosed above, as at 31 December 2016, none of the Directors, supervisors or chief executives of the Company and their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into by the Company or subsisted during the year ended 31 December 2016.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

The "Related Party Transactions" as set out in Note 37 to the consolidated financial statements also constituted connected transactions under the Listing Rules, and are required to comply with the relevant requirements under Chapter 14A of the Listing Rules.

During the year ended 31 December 2016, 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 Holding Company. Shandong Weiqiao Hengfu Knitting Co., Ltd. (山東魏橋恒富針織印染有限公司) is a 60% owned subsidiary of Holding Company. Hongyuan Home Textile is a 60% owned subsidiary of Holding Company. Tekuanfu is a 99% owned subsidiary of Holding Company. Weiqiao Garment is a 67.18% owned subsidiary of Holding Company. Elite Garment is a 75% owned subsidiary of 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 Holding Company. As the above seven companies are associates of the promoter/substantial shareholder of the Company, each of them constitutes a connected person of the Company under the Listing Rules.

3. Binzhou Municipal Binbei New Material Co., Ltd. (濱州市濱北新材料有限公司) ("Binzhou Municipal Binbei") is an indirectly wholly-owned subsidiary of China Hongqiao. Mr. Zhang Shiping, a non-executive Director of the Company, is an executive director of China Hongqiao, indirectly holding 81.12% of the issued share capital of China Hongqiao. Accordingly, Binzhou Municipal Binbei constitutes a connected person of the Company under the Listing Rules.

Details of the non-exempt continuing connected transactions of the Group for the year ended 31 December 2016 are set out below. Save as disclosed below, the Company has complied with relevant requirements under the Listing Rules.

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

On 25 August 2003, the Company and Holding Company entered into a supply of products, raw materials and processing services agreement with a term of three years commencing from 25 August 2003 to 25 August 2006 (the "Supply Agreement"). 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 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 Supply Agreement was renewed on 25 August 2006 for a term of three years commencing from 25 August 2006. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 20 October 2008 with the term starting from 1 January 2009 and ending on 31 December 2011. Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 31 October 2011 with the term commencing from 1 January 2012 and ending on 31 December

2014 (both dates inclusive). Pursuant to the renewal mechanism of such agreement, the Company and the Holding Company entered into a cotton yarn/grey fabric and denim supply agreement on 21 October 2014 with the term commencing from 1 January 2015 and ending on 31 December 2017. The prices of cotton yarn, grey fabric and denim supplied by the Group to the Parent Group were determined by reference to the prices at which comparative types of cotton yarn, grey fabric and denim were supplied by the Group to independent third parties under normal commercial terms in the ordinary course of business in the PRC. Further details of this continuing connected transaction are set out in the prospectus 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 and 24 November 2014, respectively.

Lease of Land Use Rights by Holding Company to the Company

The Company and Holding Company entered into relevant leasing agreements pursuant to which, 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 County, Shandong Province, the PRC, and the land use rights in respect of land located to the east of Zouping County, Zouping Economic Development Zone, Shandong Province, the PRC, for the Company's operations, with a right of renewal exercisable by the Company. The principal terms of the agreements are as follows:

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

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) An operating 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, Economic Development Zone, Zouping County, Shandong Province, the PRC. On 31 January 2016, the agreement has been renewed with the commencement date and expiry date on 1 February 2016 and 1 February 2019, respectively, and the other clauses and terms remain unchanged.

(vii) 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 RMB7,001,000 for the land relating to the Zouping Industrial Park Area.

(viii) 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 lease of certain parts of the land where the Zouping Third Industrial Park is situated was terminated and the annual rental has been adjusted thereafter to RMB3,816,000 and RMB2,070,000, respectively, on a pro-rata basis. Except for this, all of the original clauses and terms remain unchanged.

(ix) 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.

The rent chargeable by Holding Company to the Company was determined by reference to the market rent, namely the rent payable for leasing land use rights and property in respect of similar properties from independent third parties under normal commercial terms in the ordinary course of their business in Zouping County, Shandong Province, the PRC. For further details of the leases of land and property to the Company by the Holding Company, please refer to Note 37, headed “Related Party Transactions”, to the consolidated financial statements.

REPORT OF THE DIRECTORS

Supply of Excess Electricity by the Company to Holding Company

The Company and Holding Company entered into the supply of excess electricity agreement, pursuant to which the Company has the right to supply electricity, which is in excess of the Group's actual electricity consumption, to Holding Company for a term commencing on 18 March 2008 and ending on 31 December 2010 (both dates inclusive). The parties to the supply of excess electricity agreement have agreed to renew the transaction, and, on 4 November 2010, the Company entered into a supply of excess electricity agreement with Holding Company for a period of three years commencing on 1 January 2011 and ending on 31 December 2013, pursuant to which the Group will supply excess electricity to Holding Company. Pursuant to the renewal mechanism of such agreement, the Company and Holding Company entered into a supply of excess electricity agreement on 1 November 2013 for a term commencing on 1 January 2014 and ending on 31 December 2016 (both dates inclusive) (the "Old Supply of Excess Electricity Agreement"). Pursuant to the renewal mechanism of such agreement, the Company and Holding Company entered into a supply of excess electricity agreement on 26 October 2016 for a term commencing on 1 January 2017 and ending on 31 December 2019 (both dates inclusive) (the "Supply of Excess Electricity Agreement"). Terms and conditions under the Supply of Excess Electricity Agreement are basically the same as the conditions under the Old Supply of Excess Electricity Agreement.

The pricing basis at which excess electricity is supplied to Holding Company by the Group shall be as follows: The benchmark price of raw coal is RMB454.35 per ton (VAT inclusive), which is determined based on the price of raw coal procured by the Group in September 2016. Accordingly, the benchmark price of excess electricity to be supplied to Holding Company by the Group shall be RMB0.37 per kWh (VAT inclusive). If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, the benchmark price of excess electricity would be adjusted accordingly. The Company and 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 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.

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

Supply of Steam for Production Use by Holding Company to the Company

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

The price at which steam is supplied to the Company by Holding Company shall be RMB150 per ton (inclusive of value-added tax at 13%). The price of steam supplied by Holding Company to the Company was determined by reference to the prices at which comparable types of relevant products are supplied by Holding Company to independent third parties under normal commercial terms in the ordinary course of its business in Zouping County, Shandong Province, the PRC.

Further details of this continuing connected transaction are set out in the Company's announcement dated 3 July 2015.

Supply of Steam for Production Use by Binzhou Municipal Binbei to Binzhou Industrial Park

Binzhou Industrial Park, a subsidiary of the Company, and Binzhou Municipal Binbei entered into the steam supply agreement on 3 July 2015 for a period from 3 July 2015 to 31 December 2017 (both days inclusive), pursuant to which, Binzhou Municipal Binbei agreed to supply steam to Binzhou Industrial Park for its production use.

The price at which steam is supplied to Binzhou Industrial Park by Binzhou Municipal Binbei shall be RMB170 per ton (inclusive of value-added tax at 13%). The price of steam supplied by Binzhou Municipal Binbei to Binzhou Industrial Park was determined by reference to the prices at which comparable types of relevant products are supplied by Binzhou Municipal Binbei to independent third parties under normal commercial terms in the ordinary course of its business in Binzhou City, Shandong Province, the PRC.

Further details of this continuing connected transaction are set out in the Company's announcement dated 3 July 2015.

Past Fund Transactions Provided by the Group to the Holding Company

According to the Guidelines for Commercial Banks on the Management of Risks Associated with the Granting of Credit to Group Customers (商業銀行集團客戶授信業務風險管理指引) issued by China Banking Regulatory Commission, the relevant credit-granting banks have been treating the Parent Group as a group customer for credit management purpose. Based on such background, the Group entered into relevant fund transactions with the Parent Group (excluding the Group). For further details regarding these transactions, please refer to Note 37, headed "Related Party Transactions", to the consolidated financial statements.

As the Board considered the past fund transactions provided by the Holding Company were on normal commercial terms or better for the Company, and no security were provided over the assets of the Group in relation to the past fund transactions, pursuant to Rule 14A.90 of the Listing Rules, the fund transactions provided by the Holding Company to the Group are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under the Listing Rules. Due to the deviation in the understanding of the Listing Rules of relevant management of the Company, the Company failed to be in timely compliance with the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Listing Rules. The Company will make announcements in relation to other details of this continuing connected transaction and convene meetings to seek ratification, confirmation and approval for the past fund transactions as soon as possible. The Company will also release and despatch the circular and convene the general meeting to seek the ratification from the independent shareholders for the past fund transactions as soon as possible.

Figures for the Year Ended 31 December 2016

Below is a table setting out the aggregate value for each of the above-mentioned continuing connected transactions for the year ended 31 December 2016:

	Transaction nature	Aggregate value for the year ended 31 December 2016 *(RMB'000)*
1.	Supply of cotton yarn, cotton fabric and denim by the Group to the Parent Group	483,234
2.	Supply of excess electricity by the Company to Holding Company	2,766,622
3.	Lease of land use rights and property by Holding Company to the Group	17,965
4.	Lease of land use rights and property by the Company to Holding Company	800
5.	Supply of steam for production use by Holding Company to the Company	8,226
6.	Supply of steam for production use by Binzhou Municipal Binbei to Binzhou Industrial Park	30,182
7.	Advance to immediate holding company by the Group	4,768,336
8.	Fund transfer to immediate holding company by the Group	3,820,500

Confirmation by the Independent Non-executive Directors and Auditors

Except the past fund transactions which will be subject to confirmation by the independent non-executive Directors as detailed in the circular to be despatched by the Company in relation to the extraordinary general meeting, the independent non-executive Directors have reviewed the continuing connected transactions and confirmed that each of the continuing connected transactions was:

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

(ii) on normal commercial terms or, if there were no sufficient comparable transactions to judge whether it was on normal commercial terms, on terms that were fair and reasonable so far as the shareholders of the Company are concerned, and in the interest of the shareholders of the Company as a whole;

(iii) entered into either in accordance with the relevant agreement governing such transactions or where there were no such agreements, on terms no less favorable than those available to or from independent third parties; and

(iv) within the relevant annual cap.

REPORT OF THE DIRECTORS

The auditors of the Company have reported to the Directors that during the financial year:

(i) the above continuing connected transactions have been approved by the Board;

(ii) the above continuing connected transactions are conducted in accordance with the pricing policies of the Company;

(iii) the above continuing connected transactions have been conducted in accordance with the terms of the agreements governing such transactions; and

(iv) the respective cap amounts set out in the relevant agreements referred to above have not been exceeded.

PENSION SCHEME

Details of the pension scheme of the Group are set out in Note 3, Note 12 and Note 38 to the consolidated financial statements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code.

Having made specific enquiries with the Directors, the Company has confirmed that each of the Directors had complied with the required standard as set out in the Model Code regarding securities transactions by the Directors.

CODE ON CORPORATE GOVERNANCE

The Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules. The Company has been in compliance with all provisions of the CG Code for the year ended 31 December 2016.

PUBLIC FLOATING

Pursuant to the information that is publicly available to the Company, and so far as the Directors are aware 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 Code of Best Practices 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 11 August 2017 to review the Group's annual report and financial statements.

REPORT OF THE DIRECTORS

BUSINESS REVIEW

The business review of the Group for the Year is included in the Management Discussion and Analysis in this annual report on pages 11 to 22.

INTERNATIONAL AUDITOR

SHINEWING (HK) CPA Limited was the Company's international auditor for the year ended 31 December 2016. A resolution for the reappointment of SHINEWING (HK) CPA Limited as the international auditor of the Company will be proposed at the annual general meeting of 2016.

On 14 April 2017, Ernst & Young Hua Ming LLP and Ernst & Young have resigned as the domestic auditor and the international auditor of the Company, respectively, with effect from 14 April 2017. On 14 April 2017, according to the Articles of Association, the Board decided to appoint ShineWing Certified Public Accountants and SHINEWING (HK) CPA Limited as the domestic auditor and the international auditor of the Company, respectively, to fill the vacancy following the resignation. Further details of the resignation are set out in the Company's announcement dated 18 April 2017.

On Behalf of the Board

Zhang Hongxia
Chairman

Shandong, the PRC
11 August 2017

REPORT OF THE SUPERVISORY COMMITTEE

TO ALL SHAREHOLDERS,

In 2016, 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 advices and recommendations thereon, effectively supervised the acts of 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 2016 is reported as follows:

1. Work of the Supervisory Committee

In 2016, the Supervisory Committee convened two meetings. The specific time, place, attendance records and agenda of the meetings are set out as follows:

1. On 18 March 2016, the second meeting of the 6th 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 2015", "The Audited Financial Report for the Year Ended 31 December 2015", "The Profit Distribution Proposal for 2015" and "The Financial Report on the Final Account for 2015" were reviewed and approved.

2. On 19 August 2016, the third meeting of the 6th 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 report for the six months ended 30 June 2016 issued by Ernst & Young was discussed and approved.

2. Independent Opinions of the Supervisory Committee on Relevant Issues of the Company for 2016

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 and carried out supervision on the Company's financial and operational positions. The Supervisory Committee is of the view that in 2016, the Company operated in strict compliance with the Company Law of the PRC, 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 were 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, the Articles of Association and the rules to protect the Company's interests, and no violation of laws and regulations and no activities that harmed the Company's interests were discovered.

REPORT OF THE SUPERVISORY COMMITTEE

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 2016 truly reflected the financial position and operational results of the Group, and the audit report with 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, except the past fund transactions, 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 controlling shareholders and other related parties.

In 2017, the Supervisory Committee will continue to monitor and facilitate the improvement of 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, 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

Lv Tianfu
Chairman of the Supervisory Committee

Shandong, the PRC
11 August 2017

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company believes that good corporate governance can create values for the shareholders of the Company. The Board is committed to keeping the standards of corporate governance within the Company and to ensuring that the Company conducts its business in an honest and responsible manner. The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted in compliance with code provision D.3.1 of the CG Code, which include (a) to develop and review the Company's policies and practices on corporate governance and 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 (if any) 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.

During the year ended 31 December 2016, the Company has complied with the code provisions of the CG Code.

SECURITIES TRANSACTIONS BY DIRECTORS

On 26 August 2005, the Company adopted the securities transaction provisions as set out in the Model Code contained in Appendix 10 to the Listing Rules.

Having made specific enquiry of all Directors, the Directors have confirmed that for the year ended 31 December 2016, they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding securities transactions by the Directors.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS

As at 31 December 2016, the Board comprised four executive Directors, two non-executive Directors and three independent non-executive Directors.

The Board members are as follows:

Executive Directors

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

Non-executive Directors

Mr. Zhang Shiping
Ms. Zhao Suhua

Independent Non-executive Directors

Mr. Chan Wing Yau, George
Mr. Wang Naixin
Mr. Chen Shuwen

Mr. Zhang Shiping is the father of Ms. Zhang Hongxia and Ms. Zhang Yanhong. Ms. Zhao Suwen is the younger sister of Ms. Zhao Suhua.

The Board of the Company 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, final accounts of the Company; formulating profit distribution plans of the Company (including the plan for the distribution of final dividends) and the plan to make up losses; 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, 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 acknowledges its responsibility for supervising the preparation of the annual accounts.

CORPORATE GOVERNANCE REPORT

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 manager and financial controller; appointing or removing the management personnel other than those required to be appointed or removed by the Board; and other duties as conferred by the Articles of Association and the Board.

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

Records of attendance in Board meetings held by the Board during the Year are as follows:

Board members	**Attendance of Board meetings held in 2016**	**Attendance of general meetings held in 2016**
Ms. Zhang Hongxia	6/6	3/3
Ms. Zhang Yanhong	6/6	3/3
Ms. Zhao Suwen	6/6	3/3
Mr. Zhang Jinglei	6/6	3/3
Mr. Zhang Shiping	5/6	3/3
Ms. Zhao Suhua	6/6	3/3
Mr. Chan Wing Yau, George	5/6	3/3
Mr. Chen Shuwen	5/6	3/3
Mr. Wang Naixin	5/6	3/3

Having made specific enquiry of all the independent non-executive Directors, all of them are independent of the Company and any of its subsidiaries.

CORPORATE GOVERNANCE REPORT

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The chairman and general manager of the Company are Ms. Zhang Hongxia and Mr. Wei Jiakun, respectively.

The responsibility of the chairman is to manage the Board, while the responsibility of the general manager is to manage the business of the Company. The chairman and general manager 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 independent supervisors of the Company has signed an appointment letter with the Company for a term of 3 years respectively.

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

INDUCTION TRAINING AND DEVELOPMENT

The Company provides induction training programme for all new Directors which, taking into account their experience and background, is designed to enhance their knowledge and understanding of the Group's culture and operations as well as their relevant roles and responsibilities. Development and training of Directors is an ongoing process so that they can perform their duties appropriately. All Directors are encouraged to attend relevant training courses at the Company's expense. During the period from January 2016 to December 2016, all the Directors of the Company have been required to provide their training records to the Company, which were kept by the company secretary. All Directors, namely Mr. Zhang Shiping, Ms. Zhang Hongxia, Ms. Zhang Yanhong, Ms. Zhao Suwen, Ms. Zhao Suhua, Mr. Zhang Jinglei, Mr. Wang Naixin, Mr. Chen Shuwen and Mr. Chan Wing Yau, George, and the company secretary Mr. Zhang Jinglei 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.

PERFORMANCE EVALUATION

The Board recognises the importance and benefits of conducting regular evaluations of its performance to ensure improvement in its functioning. In 2016, 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. During the year ended 31 December 2016, the Audit Committee is comprised of three independent non-executive Directors.

The Audit Committee held a total of two meetings during the year ended 31 December 2016.

The Composition of the Audit Committee

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

The following resolutions were passed on 18 March 2016 after due consideration by members of the Audit Committee:

(1) to consider and approve the Report of the Directors and Report of the International Auditors of the Company for 2015;

(2) to consider and approve the consolidated audited financial report of the Company as of 31 December 2015;

(3) to consider and approve the profit distribution plan and financial report on the final account of the Company for 2015;

(4) to consider and approve the reappointment of Ernst & Young Hua Ming LLP as the Company's domestic auditor for the year ended 31 December 2016 and Ernst & Young as the Company's international auditor for the year ended 31 December 2016;

(5) to consider and approve the matters in relation to the transactions of the Company; and

(6) to consider and approve the annual report and results announcement of the Company for 2016.

On 19 August 2016, after due consideration, the following issues were reviewed by members of the Audit Committee:

(1) the Audit Committee reviewed the information as set out in the accounts of the Group as of 30 June 2016, and confirmed the quality of the reviewed profit and that such materials were complete, accurate and appropriate;

(2) the accounting policies adopted in the financial statements for the six months ended 30 June 2016 were the appropriate accounting policies;

(3) regarding the portion in the financial statements for the six months ended 30 June 2016 for which accurate figures are unavailable, the Audit Committee has reviewed and confirmed the estimations and the relevant basis of calculations in respect of such portion made by the management of the Company;

(4) the financial statements for the six months ended 30 June 2016 have fully disclosed all the relevant issues, and such disclosure has accurately and fairly reflected the nature of the transactions without any misleading contents;

(5) the Audit Committee has reviewed the disclosure materials of extraordinary items for the six months ended 30 June 2016, and has ensured their accuracy, fairness and absence of misleading content, and the same are also clearly disclosed in the financial statements;

(6) the Audit Committee has reviewed the Group's draft interim report for the six months ended 30 June 2016, including the Report of the Directors, the Chairman's Statement and the Management Discussion and Analysis and confirmed that such materials have accurately and fairly reflected the performance and financial position of the Group and are in line with the disclosure in the financial statements for the six months ended 30 June 2016 without any misleading contents;

(7) the Audit Committee has examined and reviewed the independence and objectivity of Ernst & Young as the Group's external auditors and the effectiveness of the auditing procedures, and considered that Ernst & Young was independent, report issued by which was objective, and the auditing procedures carried out were effective; Meanwhile, it has also examined and reviewed the financial control, internal control and risk control systems of the Group, and considered that such control systems were effective. The management of the Group has fulfilled its responsibilities for establishing effective internal control systems; and

(8) the Audit Committee has reviewed and confirmed that the interim financial report has been prepared in compliance with the HK GAAP and the Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants, and its principal accounting policies have been consistently implemented and the assumptions have been made on an ongoing basis.

Having been reviewed by the members of the Audit Committee, the following resolutions were passed at the meeting of the Audit Committee held on 19 August 2016:

(1) the unaudited financial report of the Company as of 30 June 2016; and

(2) the Interim Review Report.

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 Audit 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 Corporate Governance Code contained in Appendix 14 to the Listing Rules;

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

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

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

Minutes of Meetings

The Audit Committee held two meetings during the Year. The following is the attendance record of members of the Audit Committee during the year ended 31 December 2016:

Members of Audit Committee	Attendance of Audit Committee meetings held in the year ended 31 December 2016
Mr. Chan Wing Yau, George	2/2
Mr. Wang Naixin	2/2
Mr. Chen Shuwen	2/2

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 is in doubt about the financial statements and the control systems of the Company in the course of the audit, the management of the Company should provide the Audit Committee members with all the relevant details, analysis and supporting documents, so as to ensure that 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. During the year ended 31 December 2016, the Remuneration Committee is comprised of an executive Director and two independent non-executive Directors.

One meeting was held by the Remuneration Committee during the year ended 31 December 2016.

The Composition of the Remuneration Committee

Mr. Wang Naixin *(Chairman of the Remuneration Committee)*
Ms. Zhang Hongxia
Mr. Chen Shuwen

Members of Remuneration Committee	Attendance of Remuneration Committee meeting held in 2016
Mr. Wang Naixin	1/1
Ms. Zhang Hongxia	1/1
Mr. Chen Shuwen	1/1

Roles and Functions

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

(1) to make recommendations to the Board on the overall remuneration policy and structure relating to Directors and senior management of the Company, and provide advice in relation to the establishment of regular and transparent procedures for formulating remuneration policy;

(2) the following duties delegated by the Board: to determine the specific remuneration package of all executive Directors and senior management, including benefits in kind, pension rights and compensation payment (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board regarding the remuneration of non-executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions of other positions within the Group and the desirability of performance-based remuneration;

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;

(4) to review and approve the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment, and to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct and to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(6) to ensure none of the Directors nor any of their associates shall determine their own remuneration.

C. NOMINATION COMMITTEE

The Nomination Committee was established on 23 March 2012. During the year ended 31 December 2016, the Nomination Committee is comprised of an executive Director and two independent non-executive Directors.

One meeting was held by the Nomination Committee during the year ended 31 December 2016.

The Composition of the Nomination Committee

Ms. Zhang Hongxia *(Chairman of the Nomination Committee)*
Mr. Wang Naixin
Mr. Chen Shuwen

Members of Nomination Committee	Attendance of Nomination Committee meeting held in 2016
Ms. Zhang Hongxia	1/1
Mr. Wang Naixin	1/1
Mr. Chen Shuwen	1/1

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 become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

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

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

BOARD DIVERSITY POLICY

The Company has adopted the board diversity policy according to Provision A.5.6 of the CG Code. The Company's board diversity policy can be summarised as follows: the Company recognises the importance of diversity to corporate governance and the Board's effectiveness. The board diversity policy established by the Company is to set out the basic principles to be followed to ensure that the members of the Board have the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. The nomination and appointments of members of the Board will continue to be made on a merit basis based on the Company's business needs from time to time while taking into account diversity. Selection of the 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.

PROPOSED GRANT OF A GENERAL MANDATE AT THE ANNUAL GENERAL MEETING 2016

A general mandate is proposed to be granted to the Board of the Company by the shareholders of the Company at the annual general meeting 2016 to 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 No. 9 special resolution in the notice of annual general meeting 2016 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 and provide other non-auditing services.

For the year of 2016, the external auditors SHINEWING (HK) CPA Limited and ShineWing Certified Public Accountants have provided the Group with the following services:

	2016
	RMB'000
Annual audit service	4,200

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the effectiveness of the internal control system of the Company. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the Company will maintain and monitor the internal control system on a going-concern basis.

The Board has reviewed the internal control system of the Group during the Year, which covers financial, operational, compliance procedural, and risk control functions. The Board confirmed that the internal control system of the Group is effective.

COMPANY SECRETARY

All 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 2016, the company secretary of the Company undertook over 15 hours of professional training to update his skills and knowledge.

CHANGES IN THE COMPANY'S ARTICLES OF ASSOCIATION

There is no significant change in the Company's constitutional documents during the year ended 31 December 2016.

CORPORATE GOVERNANCE REPORT

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.

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

Tel: 852-2815 1090
Correspondence 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 the public 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
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

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

OPINION

We have audited the consolidated financial statements of Weiqiao Textile Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 146, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") 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.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 18 March 2016.

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.

Impairment on trade receivables

Refer to note 24 to the consolidated financial statements and the accounting policies on page 93.

The key audit matter	How the matter was addressed in our audit
As at 31 December 2016, the Group had trade receivables of approximately RMB450 million. In addition, there were trade receivables which were past due but not impaired amounted to approximately RMB64 million. We identified the impairment of trade receivables as a key audit matter as the amounts are significant to the consolidated financial statements as a whole and there is significant degree of management judgement involved in assessing the ultimate realisation of these receivables, based on the current creditworthiness and the past collection history of each customer.	Our audit procedures were designed to review the management's assessment of the indicators of impairment and challenge the reasonableness of the methods and assumptions used to estimate the allowance for doubtful debts. We have assessed the indicators of possible impairment and, where such indicators were identified by the management, assessed the management's impairment testing. We have also challenged the assumptions and critical judgement used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end and cash received after year end as well as the recent creditworthiness of each debtor.

Valuation of property, plant and equipment and investment properties

Refer to notes 17 and 18 to the consolidated financial statements and the accounting policies on page 91.

The key audit matter	How the matter was addressed in our audit
We have identified the valuation of property, plant and equipment and investment properties 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 investment properties at the end of the reporting period which may affect their respective carrying amounts. The Group engaged an independent professional valuer to perform valuation on the idle property, plant and equipment and investment properties as at 31 December 2016 based on market approach. As at 31 December 2016, the carrying amount of property, plant and equipment and investment properties are approximately RMB12,835,224,000 and RMB22,994,000 respectively.	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. We have discussed with the management on the key assumptions used in the management's assessment of the indicators of impairment. We have also performed check on sample basis by physically inspecting whether the property, plant and equipment are kept in a good condition. We have considered the objectivity, independence and expertise of the valuers, and assessed the appropriateness of their valuation methodology. We challenged the data used as inputs for the valuation, which included reference to the market unit selling price of comparable properties nearby used in the valuation and performed market value benchmarking against comparable properties.

Valuation of inventories

Refer to note 23 to the consolidated financial statements and the accounting policies on page 91.

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 2016, the carrying amount of inventories is approximately RMB3 billion, net of impairment provisions of approximately RMB226 million.	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 performed testing on the aging analysis of the inventories, on a sample basis, to the source documents. We have tested the subsequent sales on a sample basis, to source documents. We have also assessed the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sampling basis.

Transactions with the immediate holding company of the Company

Refer to note 37 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
We identified the transaction with the holding company as a key audit matter due to large magnitude of the transactions and the audit findings as mentioned by the previous auditor. The transactions with the immediate holding company include: 1) Fund flows in and out of the Group amount to RMB3,821 million and RMB3,821 million respectively; 2) Advances to the immediate holding company amount to approximately RMB4,772 million; 3) Repayments from the immediate holding company amount to approximately RMB1,846 million; and 4) Balance of amount due from the immediate holding company of approximately RMB2,976 million.	Our audit procedures were designed to address the completeness and presentation of the transaction with the immediate holding company. We have checked each of the significant transactions with the immediate holding company to the source document including, scrutinised the banks statements, obtained bank confirmations and interviewed with the relevant bankers. We also corroborated our independently obtained evidences with the list of transactions provided by the management of the Group. We also checked whether the disclosure of the transactions with the immediate holding company comply with respective disclosure requirement.

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.

INDEPENDENT AUDITOR'S REPORT

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.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kwan Chi Fung.

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

Hong Kong
11 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000 (restated)
Revenue	7	**14,175,446**	12,498,205
Cost of sales		**(11,924,087)**	(10,310,574)
Gross profit		**2,251,359**	2,187,631
Other income	9	**325,201**	232,339
Selling and distribution expenses		**(165,379)**	(132,683)
Administrative expenses		**(304,017)**	(327,570)
Other expenses		**(12,740)**	(27,849)
Finance costs	10	**(581,415)**	(609,142)
Share of profit of an associate		**1,648**	4,538
Profit before taxation		**1,514,657**	1,327,264
Income tax expenses	11	**(526,445)**	(349,654)
Profit and total comprehensive income for the year	12	**988,212**	977,610
Attributable to:			
Owners of the Company		**992,706**	979,347
Non-controlling interests		**(4,494)**	(1,737)
		988,212	977,610
Earnings per share attributable to the Owners of the Company			
Basic and diluted	16	**RMB0.83**	RMB0.82

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	17	12,835,224	10,022,287
Investment properties	18	22,994	23,770
Prepaid lease payments	19	348,330	254,871
Other intangible assets	20	122	739
Investment in an associate	21	72,000	74,477
Available-for-sale investments	22	–	1,298,000
Prepayments	25	–	300,000
Deferred tax assets	32	148,709	268,030
Total non-current assets		13,427,379	12,242,174
Current assets			
Inventories	23	3,099,067	4,257,635
Trade receivables	24	450,470	254,270
Deposits, prepayments and other receivables	25	480,494	210,537
Amount due from immediate holding company	26	2,976,009	–
Pledged deposits	27	90,985	58,945
Cash and cash equivalents	27	11,292,430	12,031,910
		18,389,455	16,813,297
Non-current assets classified as held for sale	17	15,467	25,963
Total current assets		18,404,922	16,839,260
Current liabilities			
Trade payables	28	941,598	904,416
Other payables and accruals	29	1,231,077	1,115,603
Income tax payable		867,107	710,696
Amount due to immediate holding company	26	59,060	–
Bank and other borrowings	30	3,824,500	1,728,850
Deferred income	31	18,322	38,289
Total current liabilities		6,941,664	4,497,854
Net current assets		11,463,258	12,341,406
Total assets less current liabilities		24,890,637	24,583,580

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Equity			
Issued capital	33	1,194,389	1,194,389
Reserves		16,520,606	15,830,558
		17,714,995	17,024,947
Non-controlling interests		65,743	70,237
Total equity		17,780,738	17,095,184
Non-current liabilities			
Bank and other borrowings	30	6,926,167	7,286,563
Deferred income	31	180,457	198,281
Deferred tax liabilities	32	3,275	3,552
Total non-current liabilities		7,109,899	7,488,396
		24,890,637	24,583,580

The consolidated financial statements on page 70 to 146 were approved and authorised for issue by the board of directors on 11 August 2017 and are signed on its behalf by:

....

Zhang Hongxia

....

Zhao Suwen

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company						
	Issued 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 2015	1,194,389	6,664,645	1,471,415	6,807,477	16,137,926	72,552	16,210,478
Profit and total comprehensive income for the year	–	–	–	979,347	979,347	(1,737)	977,610
Final 2014 dividend declared	–	–	–	(92,326)	(92,326)	–	(92,326)
Dividend paid to non-controlling shareholders	–	–	–	–	–	(578)	(578)
Transfer from retained profits	–	–	114,788	(114,788)	–	–	–
At 31 December 2015	**1,194,389**	**6,664,645**	**1,586,203**	**7,579,710**	**17,024,947**	**70,237**	**17,095,184**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**992,706**	**992,706**	**(4,494)**	**988,212**
Final 2015 dividend declared	**–**	**–**	**–**	**(302,658)**	**(302,658)**	**–**	**(302,658)**
Transfer from retained profits	**–**	**–**	**104,323**	**(104,323)**	**–**	**–**	**–**
At 31 December 2016	**1,194,389**	**6,664,645**	**1,690,526**	**8,165,435**	**17,714,995**	**65,743**	**17,780,738**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 *RMB'000*	2015 *RMB'000* (restated)
OPERATING ACTIVITIES		
Profit before taxation	**1,514,657**	1,327,264
Adjustments for:		
Finance costs	**581,415**	609,142
Share of profit of an associate	**(1,648)**	(4,538)
Interest income	**(82,298)**	(40,518)
Gain on disposal of available-for-sale investments	**(86,938)**	(49,726)
Recognition of deferred income	**(37,791)**	(38,611)
Government grant	**(869)**	–
Rental income from leasing investment properties	**–**	(875)
Gain on disposal of property, plant and equipment	**(6,484)**	(11,625)
Impairment loss on property, plant and equipment	**–**	10,090
Impairment loss on investment properties	**–**	1,508
Impairment loss on deposits, prepayments and other receivables	**–**	4,738
Impairment loss on trade receivables	**4,793**	–
Impairment loss on inventories	**26,304**	180,185
Reversal of impairment loss on trade receivables	**(15,207)**	(2,387)
Reversal of allowance for inventories	**(196,286)**	(191,870)
Depreciation of property, plant and equipment	**1,170,405**	1,213,273
Depreciation of investment properties	**776**	776
Amortisation of prepaid lease payments	**8,211**	6,479
Amortisation of other intangible assets	**617**	206
Operating cash flows before movements in working capital	**2,879,657**	3,013,511
Decrease in inventories	**1,328,550**	1,210,918
(Increase) decrease in trade receivables	**(185,786)**	56,338
(Increase) decrease in deposits, prepayments and other receivables	**(267,597)**	143,956
Increase (decrease) in trade payables	**37,182**	(222,135)
Increase in other payables and accruals	**66,094**	241,857
Increase in amount due to immediate holding company	**59,060**	–
Cash generated from operations	**3,917,160**	4,444,445
Income tax paid	**(250,990)**	(136,306)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**3,666,170**	4,308,139

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
		(restated)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(3,790,199)**	(373,708)
Advance to immediate holding company	**(4,772,465)**	–
Payment to acquire land use right	**(104,030)**	–
(Increase) decrease in pledged deposits	**(32,040)**	22,397
Government grant received	**869**	–
Dividends received from an associate	**4,125**	8,387
Bank interest income received	**32,918**	40,518
Gain on available-for-sale investments	**–**	49,726
Proceeds from disposal of property, plant and equipment	**123,837**	54,813
Proceed from disposal (acquisition) of available-for-sale investments	**1,384,938**	(1,298,000)
Repayment from immediate holding company	**1,845,836**	–
Fund inflow from immediate holding company	**3,820,000**	900,000
Fund outflow from immediate holding company	**(3,820,000)**	(900,000)
NET CASH USED IN INVESTING ACTIVITIES	**(5,306,211)**	(1,495,867)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(3,890,850)**	(2,364,188)
Interest paid	**(512,431)**	(591,896)
Dividend paid	**(302,658)**	(92,326)
New bank borrowings raised	**5,606,500**	1,555,185
Dividend paid to non-controlling shareholders	**–**	(578)
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES	**900,561**	(1,493,803)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(739,480)**	1,318,469
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**12,031,910**	10,713,441
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH	**11,292,430**	12,031,910

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

The Company is a limited company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 34, Qidong Road, Weiqiao Town, Zuoping County, 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 sales of cotton yarn, grey fabric and denim, and the generation and sales of electricity.

The consolidated financial statements are presented in Renmibi ("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 subsidiary of the Company operates (the functional currency of the principal subsidiary).

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

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("Int(s)") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the above new and revised HKFRSs in the current year has no material impact on the Group's financial performance and positions for the current year and prior years and/or on the disclosures set out in these consolidated financial statements.

* *For identification purpose only*

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective

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

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[2]
HK(IFRIC)-Int 23	Uncertainty Over Income Tax Treatments[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycles[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKAS 40	Transfer of Investment Property[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture[5]

[1] Effective for annual period beginning on or after 1 January 2017.

[2] Effective for annual period beginning on or after 1 January 2018.

[3] Effective for annual period beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

[4] Effective for annual period beginning on or after 1 January 2019.

[5] Effective date not yet been determined.

The director of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- It requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be required subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have 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, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 9 (2014) Financial Instruments (continued)

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in HKAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. HKFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 (2014) until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or 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. Thus, HKFRS15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied. Far more prescriptive guidances have been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detail review is completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment,* while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB215,447,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs issued but not yet effective (continued)

Amendment to HKAS 7 Disclosure Initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfill the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

Amendments to HKAS 7 will become effective for annual periods beginning on or after 1 January 2017 with early application permitted.

The directors of the Company anticipate that the application of Amendments to HKAS 7 will result in additional disclosures on the Group's financing activities, especially reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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 historical cost basis, except for available-for-sale investment that are measured at fair value. Non-current assets classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell.

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

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements 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.

Profit or loss is attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

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 investments in associates are accounted for in the consolidated financial statements using the equity method. Under the equity method, investments in associates are initially recognised at cost. The Group's share of the profit or loss and changes in the other comprehensive income of the associates are recognised in profit or loss and other comprehensive income respectively after the date of acquisition. If the Group's share of losses 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 investment in the associate, the Group discontinues recognising its share of further losses. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

After application of the equity method, including recognising the associate's losses, the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. 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 forms part of the carrying amount of the investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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 or the disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Revenue from sale of electricity and steam is recognised when electricity is supplied to customers.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Borrowing costs

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

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

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits cost

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

Short-term and other long-term employee benefits

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

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

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statements 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

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.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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

Intangible assets

Intangible assets acquired separately

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

Impairment on tangible assets

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

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised 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. 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 are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as into loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

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. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amount due from immediate holding company, pledged deposits and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets in some entrusted assets managed by the third-party asset management company.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment loss on financial assets (continued)

For certain categories of financial assets, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade receivables and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

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 the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals, amount due to immediate holding company and bank and other borrowings are subsequently measured at amortised cost, using the effective interest method.

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 through the expected life of the financial liability, or where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised 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 entity. 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 in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable 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 and liabilities that are not readily apparent from other sources. 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.

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

Critical judgements in applying accounting policies

The following 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 buildings

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

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 investment properties

The Group assesses whether there are any indicators of impairment for property, plant and equipment and investment properties at the end of each reporting period. Property, plant and equipment and investment properties 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 cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

As at 31 December 2016, the carrying amounts of property, plant and equipment and investment properties are approximately RMB12,858,218,000 (2015: RMB10,046,057,000). Based on the estimated recoverable amounts, no impairment loss in respect of property, plant and equipment and investment properties has been recognised in profit or loss (2015: approximately RMB11,598,000).

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

Key sources of estimation uncertainty (continued)

Depreciation of property, plant and equipment

The Group depreciates the property, plant and equipment over their estimated useful life, using the straight line method. 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. 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. As at 31 December 2016, the carrying amounts of property, plant and equipment are approximately RMB12,835,224,000 (2015: RMB10,022,287,000).

Impairment loss recognised in respect of trade receivables

The policy for making impairment loss on trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. As at 31 December 2016, the carrying amounts of trade receivables were approximately RMB450,470,000 (2015: RMB254,270,000) (net of allowance for doubtful debts of approximately RMB4,348,000 (2015: RMB16,632,000).

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 2016, the carrying amounts of inventories were approximately RMB3,099,067,000 (2015: RMB4,257,635,000) (net of impairment provision of approximately RMB226,472,000 (2015: RMB396,455,000).

Income tax

As at 31 December 2016, no deferred tax asset has been recognised on the tax losses of approximately RMB763,633,000 (2015: RMB262,604,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank borrowings and corporate bonds disclosed in note 30 and cash and cash equivalent disclosed in note 27, and equity attributable to the owners of 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

	2016	2015
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**14,810,941**	12,404,927
Available-for sale investments	**–**	1,298,000
Financial liabilities stated at amortised cost	**14,810,941**	13,702,927
Financial liabilities		
Financial liabilities stated at amortised cost	**12,679,072**	10,855,104

Financial risk management objectives and policies

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

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The Group has foreign currency sales, purchases and bank loans of the Group in United States dollar ("US$") and Swiss Franc ("CHF"), which expose the Group to foreign currency risk. Approximately 9% of the Group's trade receivables were denominated in US$, whilst approximately 6% of the Group's trade payables were denominated in US$.

The Group is mainly exposed to USD.

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2015: 5%) increase or decrease in RMB against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates. The sensitivity analysis includes bank loans where the denomination of the loan is in a currency other than the functional currency of the borrower.

A positive number below indicates an increase (2015: increase) in post-tax profit for the year where RMB weakening 5% (2015: 5%) against US$. For a 5% (2015: 5%) strengthening of RMB against US$, there would be an equal and opposite impact on the post-tax profit and the balances below would be negative.

Effect on post-tax profit:

	2016	2015
	RMB'000	*RMB'000*
US$	**(662)**	3,076

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to bank balances and variable-rate bank borrowings (see note 30). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 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 50 basis points (2015: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would decrease/increase by approximately RMB91,462,000 (2015: RMB96,625,000). This is mainly attributable to the Group's exposure to interest rates on variable-rate bank borrowings.

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated statements of financial position.

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. In addition, the Group reviews the recoverable amount of each individual trade receivables and other receivables regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

Management considers the credit risk attributable to the amount due from a controlling shareholder is limited because the balances are regularly reviewed and settled.

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 16% (2015: 18%) and 36% (2015: 42%) 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 2016 which excluded the immediate holding company and fellow subsidiaries.

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 and obligations under finance leases as a significant source of liquidity and the management monitors the utilisation of bank borrowings and obligations under finance leases and ensures compliance with loan covenants.

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

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

6. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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 2016				
	Within 1 year or on demand	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	941,598	–	–	941,598	941,598
Other payables and accruals	878,367	–	–	878,367	878,367
Amount due to holding company	59,060	–	–	59,060	59,060
Bank and other borrowings	4,345,348	3,766,144	3,686,261	11,797,753	10,750,667
	6,224,373	3,766,144	3,686,261	13,676,778	12,629,692

	At 31 December 2015				
	Within 1 year or on demand	1 to 2 years	2 to 5 years	Total undiscounted cash flows	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	904,416	–	–	904,416	904,416
Other payables and accruals	935,275	–	–	935,275	935,275
Bank and other borrowings	2,216,738	1,338,579	6,879,088	10,434,405	9,015,413
	4,056,429	1,338,579	6,879,088	12,274,096	10,855,104

6. FINANCIAL INSTRUMENTS (continued)

Fair value measurement recognised in the consolidated statement of financial position

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation techniques and inputs used).

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs	Significant unobservable inputs
		2016	2015		
		RMB'000	*RMB'000*		
Available-for-sale investments	Level 2	**–**	1,298,000	Discounted cash flows based on the rates currently available for instruments with similar terms, credit risk and remaining maturities	N/A

During the year, there were no transfers between levels of fair value hierarchy in current year and prior year.

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values due to short-term maturities. The directors of the Company also consider that the fair value of the long-term portion of liabilities approximates to their carrying amount as they are carried at amortised cost by using the effective interest method.

7. REVENUE

Revenue represents revenue arising from sales of cotton yarn, grey fabric, denim and electricity and steam, net of sales allowances for return, discounts and sales related tax, for the year. An analysis of the Group's revenue for the year is as follows:

	2016	2015
	RMB'000	*RMB'000*
Cotton yarn	**3,505,824**	3,322,472
Grey fabric	**5,776,725**	5,625,137
Denim	**804,931**	817,869
Electricity and steam	**4,087,966**	2,732,727
	14,175,446	12,498,205

8. SEGMENT INFORMATION

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

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

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

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

During the year ended 31 December 2016, several subsidiaries were established pursuant to a restructuring which divided the business units of the Company into several legal entities which have to maintain their own books and records respectively, thereby the financial information of electricity and steam is available to management of the Company, who monitors the result of such business as a separate operating segment and makes decisions about resources allocation and performance assessment. This resulted in a change in the composition of the Group's reportable segments such that generation and sales of electricity and steam was identified as a new reportable segment. The comparative segment information has been reclassified to conform to these changes.

No operating segments identified by the chief operating decision maker 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 segment.

For the year ended 31 December 2016

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	10,087,480	4,087,966	14,175,446
Intersegment revenue	–	546,765	546,765
Segment revenue	10,087,480	4,634,731	14,722,211
Eliminations			(546,765)
Group revenue			14,175,446
Segment profit	175,629	1,855,158	2,030,787
Unallocated income			325,201
Unallocated corporate expenses			(261,564)
Unallocated finance costs			(581,415)
Share of results of associates			1,648
Profit before tax			1,514,657

8. SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

For the year ended 31 December 2015

	Textile products *RMB'000*	Electricity and steam *RMB'000*	Total *RMB'000*
External revenue	9,765,478	2,732,727	12,498,205
Intersegment revenue	–	282,041	282,041
Segment revenue	9,765,478	3,014,768	12,780,246
Eliminations			(282,041)
Group revenue			12,498,205
Segment profit	415,321	1,596,663	2,011,984
Unallocated income			232,339
Unallocated corporate expenses			(312,455)
Unallocated finance costs			(609,142)
Share of results of associates			4,538
Profit before tax			1,327,264

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, other income, finance costs and share of results of associates. This is the measure reported to the directors with respect to the resource allocation and performance assessment.

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

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

Segment assets

	2016	2015
	RMB'000	*RMB'000*
Textile products	**8,881,991**	10,874,787
Electricity and steam	**7,928,675**	4,242,133
Total segment assets	**16,810,666**	15,116,920
Investment in an associate	**72,000**	74,477
Corporate and other assets	**14,949,635**	13,890,037
Total assets	**31,832,301**	29,081,434

Segment liabilities

	2016	2015
	RMB'000	*RMB'000*
Textile products	**915,309**	1,971,420
Electricity and steam	**830,897**	48,599
Total segment liabilities	**1,746,206**	2,020,019
Corporate and other liabilities	**12,305,357**	9,966,231
Total liabilities	**14,051,563**	11,986,250

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

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

– All assets are allocated to operating segment, other than investment in an associate, deferred tax assets, available-for-sale investments, unallocated deposits, prepayments and other receivables, unallocated amount due from immediate holding company, pledged bank deposits, cash and cash equivalent and other corporate assets. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

– All liabilities are allocated to operating segments, other than unallocated other payables and accruals, unallocated amount due to immediate holding company, income tax payable, bank and other 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.

Other segment information

For the year ended 31 December 2016

	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)*	271,403	3,922,826	–	4,194,229
Depreciation and amortisation	757,089	323,635	99,285	1,180,009
Reversal of allowances for inventories	(196,286)	–	–	(196,286)
Allowances for inventories	26,304	–	–	26,304
Reversal of impairment loss on trade receivables	(15,207)	–	–	(15,207)
Impairment loss on trade receivables	4,793	–	–	4,793
Gain on disposal of property, plant and equipment	(6,484)	–	–	(6,484)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of available-for-sale investments	–	–	(86,938)	(86,938)
Interest income	–	–	(82,298)	(82,298)
Interest expense	–	–	581,415	581,415
Investment in an associate	–	–	72,000	72,000
Share of profit of an associate	–	–	(1,648)	(1,648)
Income tax expense	–	–	526,445	526,445

8. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

Other segment information (continued)

For the year ended 31 December 2015

	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)*	36,342	29,100	–	65,442
Depreciation and amortisation	887,522	236,786	96,426	1,220,734
Impairment loss on property, plant and equipment	10,090	–	–	10,090
Impairment loss on investment properties	1,508	–	–	1,508
Reversal of allowances for inventories	(191,870)	–	–	(191,870)
Allowances for inventories	180,185	–	–	180,185
Reversal of impairment loss on trade receivables	(2,387)	–	–	(2,387)
Impairment loss on deposits, prepayments and other receivables	4,738	–	–	4,738
Gain on disposal of property, plant and equipment	(11,625)	–	–	(11,625)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss or segment assets:				
Gain on disposal of available-for-sale investments	–	–	(49,726)	(49,726)
Interest income	–	–	(40,518)	(40,518)
Interest expense	–	–	609,142	609,142
Investment in an associate	–	–	74,477	74,477
Share of profit of an associate	–	–	(4,538)	(4,538)
Income tax expenses	–	–	349,654	349,654

Note: Non-current assets included property, plant and equipment, investment properties, prepaid land lease payments and other intangible assets for the years ended 31 December 2016 and 2015.

8. SEGMENT INFORMATION (continued)

Geographical information

During the years ended 31 December 2016 and 2015, the Group's operations are mainly located in the PRC.

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

Revenue from external customers

	2016 RMB'000	2015 RMB'000
PRC	10,724,306	9,746,106
Hong Kong	1,754,148	1,222,123
Southeast Asia	596,647	549,340
East Asia	578,334	498,965
Others	522,011	481,671
	14,175,446	12,498,205

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:

	2016 RMB'000	2015 RMB'000
Holding Company and fellow subsidiaries[1]	3,249,856	3,941,334

[1] Revenue from textile products and sales of electricity and steam.

9. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Interest income	**82,298**	40,518
Release of deferred income	**37,791**	38,611
Government grants *(note)*	**869**	–
Compensation from suppliers on the supply of sub-standard goods	**11,894**	13,210
Gross rental income	**2,505**	875
Gain on disposal of available-for-sale investments	**86,938**	49,726
Exchange gain, net	**44,473**	29,918
Gain on sale of waste and spare parts	**31,987**	31,229
Gain on disposal of property, plant and equipment	**6,484**	11,625
Others	**19,962**	16,627
	325,201	232,339

Note: The income is the government grants received from local government authorities for the outward business development scheme, service industry development scheme and export credit insurance subsidies which were immediately recognised as other income for the year as the Group fulfilled the relevant granting criteria.

10. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on:		
– bank loans	**186,811**	214,627
– corporate bonds	**394,604**	394,515
	581,415	609,142

11. INCOME TAX EXPENSES

	2016	2015
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprises Income Tax ("EIT")	**407,401**	386,296
Hong Kong Profits Tax	**–**	164
	407,401	386,460
Deferred taxation *(note 32)*	**119,044**	(36,806)
	526,445	349,654

Notes:

a) During the years ended 31 December 2016 and 2015, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit.

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

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

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**1,514,657**	1,327,264
Tax at the tax rate of 25%	**378,664**	331,816
Tax effect of share of result of an associate	**(412)**	(1,135)
Tax effect of expenses not deductible for tax purposes	**6,673**	15,643
Deductible temporary difference not recognised	**16,401**	–
Tax effect of tax losses not recognised	**81,016**	7,573
Utilisation of tax losses previously not recognised	**(5,434)**	(4,158)
Reversal of tax loss previously recognised	**49,676**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(139)**	(85)
Income tax expense for the year	**526,445**	349,654

12. PROFIT FOR THE YEAR

	2016	2015
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging:		
Directors', chief executive's and supervisors' emoluments *(note 13)*	**4,852**	4,795
Salaries, wages, allowances and other benefits	**2,645,019**	2,378,483
Contributions to retirement benefits scheme (excluding directors', chief executive's and supervisors' emoluments)	**202,328**	201,909
Total staff costs	**2,852,199**	2,585,187
Auditor's remuneration	**8,230**	6,425
Depreciation of property, plant and equipment	**1,170,405**	1,213,273
Depreciation of investment properties	**776**	776
Amortisation of prepaid lease payments	**8,211**	6,479
Amortisation of other intangible assets	**617**	206
Impairment loss on property, plant and equipment	**–**	10,090
Impairment loss on investment properties	**–**	1,508
Impairment loss on deposits, prepayments and other receivables	**–**	4,738
Impairment loss on trade receivables	**4,793**	–
Reversal of impairment loss on trade receivables	**(15,207)**	(2,387)
Allowance for inventories	**26,304**	180,185
Reversal of allowance for inventories	**(196,286)**	(191,870)
Amount of inventories recognised as an expense	**11,727,801**	10,118,704
Operating leases rental relates to office premises	**17,930**	18,465
Research and development cost	**64,927**	74,101

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 subsidiary undertaking:	**Fees**	**Salaries, allowances and other benefits**	**Employer's contributions to retirement benefits scheme**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Year ended 31 December 2016				
Executive directors				
Ms. Zhang Hongxia	1,200	83	14	1,297
Ms. Zhao Suwen	600	74	13	687
Ms. Zhang Yanhong	600	72	7	679
Mr. Zhang Jinglei	300	68	13	381
Non-executive directors				
Mr. Zhang Shiping	100	–	–	100
Ms. Zhao Suhua	100	59	13	172
Independent non-executive directors				
Mr. Wang Naixin	–	–	–	–
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	533	–	–	533
	3,583	356	60	3,999
Chief executive:				
Mr. Wei Jiakun	–	680	13	693
Supervisors:				
Mr. Lv Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
Ms. Wang Xiaoyun	30	57	13	100
	90	57	13	160
Total	3,673	1,093	86	4,852

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 subsidiary undertaking:	Fees	Salaries, allowances and other benefits	Employer's contributions to retirement benefits scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2015				
Executive directors				
Ms. Zhang Hongxia	1,200	80	13	1,293
Ms. Zhao Suwen	600	70	12	682
Ms. Zhang Yanhong	600	68	7	675
Mr. Zhang Jinglei	300	63	12	375
Non-executive directors				
Mr. Zhang Shiping	100	–	–	100
Ms. Zhao Suhua	100	58	12	170
Independent non-executive directors				
Mr. Wang Naixin	–	–	–	–
Mr. Chen Shuwen	150	–	–	150
Mr. Chan Wing Yau, George	503	–	–	503
	3,553	339	56	3,948
Chief executive:				
Mr. Wei Jiakun	–	677	12	689
Supervisors:				
Mr. Lv Tianfu	30	–	–	30
Ms. Wang Wei	30	–	–	30
Ms. Wang Xiaoyun	30	56	12	98
	90	56	12	158
Total	3,643	1,072	80	4,795

Except Mr. Wang Naixin, the independent non-executive directors of the Company, no directors, chief executive and supervisors of the Company waived or agreed to waive the emolument paid by the Group during the years ended 31 December 2016 and 2015.

No emoluments were paid by the Group to the directors as an inducement for joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

14. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments include four directors and the chief executive (2015: four directors and the chief executive) of the Company whose emoluments are set out in note 13.

15. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
2016 Final – RMB0.2800 (2015: 2015 Final – RMB0.2534) per share	**334,429**	302,658

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. In accordance with the articles of association of the Company, the net profit of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with China Accounting Standards for Business Enterprises; and (ii) the net profit determined in accordance with HKFRSs.

16. EARNINGS PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**992,706**	979,347
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share *('000 shares)*	**1,194,389**	1,194,389

The dilutive earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares outstanding during the years ended 31 December 2016 and 2015.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At 1 January 2015	5,515,100	15,351,966	165,102	10,517	21,042,685
Additions	33,090	18,292	2,275	11,785	65,442
Disposals	(100)	(289,787)	(1,581)	–	(291,468)
Reclassified as held for sale	–	(265,654)	–	–	(265,654)
Transfers	2,358	16,396	–	(18,754)	–
At 31 December 2015 and 1 January 2016	5,550,448	14,831,213	165,796	3,548	20,551,005
Additions	8,323	137,089	6,235	3,938,552	4,090,199
Disposals	(71,467)	(409,485)	(4,859)	–	(485,811)
Reclassified as held for sale	–	(63,304)	(2,588)	–	(65,892)
Transfers	1,490,676	2,283,236	81,522	(3,855,434)	–
At 31 December 2016	6,977,980	16,778,749	246,106	86,666	24,089,501
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	905,946	8,792,529	102,586	–	9,801,061
Charge for the year	160,066	1,039,478	13,729	–	1,213,273
Impairment loss recognised in profit or loss	–	10,090	–	–	10,090
Eliminated on disposals	(8)	(255,492)	(515)	–	(256,015)
Reclassified as held for sale	–	(239,691)	–	–	(239,691)
At 31 December 2015 and 1 January 2016	1,066,004	9,346,914	115,800	–	10,528,718
Charge for the year	228,855	918,276	23,274	–	1,170,405
Eliminated on disposals	(6,426)	(385,035)	(2,960)	–	(394,421)
Reclassified as held for sale	–	(48,283)	(2,142)	–	(50,425)
At 31 December 2016	1,288,433	9,831,872	133,972	–	11,254,277
CARRYING VALUES					
At 31 December 2016	5,689,547	6,946,877	112,134	86,666	12,835,224
At 31 December 2015	4,484,444	5,484,299	49,996	3,548	10,022,287

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.

At 31 December 2016, the Group's buildings, machinery and equipment with carrying values of approximately RMB653,120,000 (2015: RMB1,494,596,000) have been pledged to secure banking facilities granted to the Group.

The Group's idle buildings, machinery and equipment with aggregate carrying amount of approximately RMB526 million as at 31 December 2016 (2015: RMB377 million) were valued individually by Wan Long (Shanghai) Assets Evaluation Co., Ltd. ("Shanghai Wan Long"), an independent professionally qualified valuer. Based on the valuation report, no impairment loss was charged to profit or loss for the year ended 31 December 2016 (2015: approximately RMB10,090,000). The recoverable amounts of these idle machinery and equipment were the fair value less costs of disposal. The fair values were measured by using Level 2 valuation techniques within the fair value hierarchy, which were estimated with reference to the market prices of similar assets after considering the conditions of these assets.

As at 31 December 2016, the Group was in the process of obtaining the certificates of ownership for buildings which carrying values of approximately RMB1,917,932,000 (2015: RMB241,725,000) 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 2016, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2016 and expected to be fulfilled in 2017.

At 31 December 2015, the non-current assets held for sale were certain items of machinery under sales agreements entered into during 2015, which were sold during 2016.

18. INVESTMENT PROPERTIES

	Buildings
	RMB'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	32,327
DEPRECIATION AND IMPAIRMENT	
At 1 January 2015	6,273
Charge for the year	776
Impairment loss recognised in profit or loss	1,508
At 31 December 2015	8,557
Charge for the year	776
At 31 December 2016	9,333
CARRYING VALUES	
At 31 December 2016	22,994
At 31 December 2015	23,770

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

Buildings	25 years

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 2016 and 2015.

Under the discounted cash flow method, a fair value of approximately RMB26,397,000 (2015: RMB23,770,000) is estimated using assumptions regarding the benefits and liabilities of ownership over the assets' life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the assets. The exit yield is normally separately determined and differs from the discount rate.

19. PREPAID LEASE PAYMENTS

The carrying amount of prepaid lease payments of the Group analysed for reporting purposes as:

	2016	2015
	RMB'000	*RMB'000*
Current assets included in deposits, prepayments and other receivables *(note 25)*	**8,839**	6,479
Non-current assets	**348,330**	254,871
	357,169	261,350

Prepaid lease payments represent the Group's interests in land which are held under medium-term leases and located in the PRC.

20. OTHER INTANGIBLE ASSETS

	Technology right	**Software**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2015, 31 December 2015 and 31 December 2016	12,002	1,740	13,742
AMORTISATION			
At 1 January 2015	12,002	795	12,797
Charge for the year	–	206	206
At 31 December 2015	12,002	1,001	13,003
Charge for the year	–	617	617
At 31 December 2016	12,002	1,618	13,620
CARRYING VALUES			
At 31 December 2016	–	122	122
At 31 December 2015	–	739	739

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

21. INVESTMENT IN AN ASSOCIATE

	2016 RMB'000	2015 RMB'000
Cost of investment in associates – unlisted	67,500	67,500
Share of post acquisition profit and other comprehensive income, net of dividends received	4,500	6,977
	72,000	74,477

At 31 December 2016 and 2015, the Group had interest in the following associate:

Name of entities	Form of business	Principal place of operation and establishment	Proportion of ownership interest or participating shares held by the Group 2016	Proportion of ownership interest or participating shares held by the Group 2015	Proportion of voting power held by the Group 2016	Proportion of voting power held by the Group 2015	Principal activities
威海市環翠區宏源小額貸款有限公司 Weihai Huancui District Hongyuan Microfinance Company Limited *	Incorporated	PRC	45%	45%	45%	45%	Provision of finance and financial advisory services to small enterprises

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

	2016 RMB'000	2015 RMB'000
Share of profit and total comprehensive income for the year	1,648	4,538

* *For identification purpose only*

22. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments represented the entrusted assets managed by CITIC-CP Asset Management Co., Ltd. (中信信誠資產管理有限公司), which were entrusted by the Group during the year ended 31 December 2015. According to the asset management agreement entered into between the Group and CITIC-CP Asset Management Co., Ltd., the investment scope of the entrusted assets shall be within the scope of (i) cash assets, such as cash, deposit, monetary fund, etc.; (ii) bonds financial assets, such as national debt traded on the exchanges or inter-bank, corporate bonds, etc.; and (iii) other financial assets with fixed income, such as asset securitisation products, financial products, etc. These investments were classified as available-for-sale financial assets and no other comprehensive income or loss was recognised for the years ended 31 December 2016 and 2015, as the aggregate changes in fair value of such financial assets were immaterial since their respective acquisition dates. The available-for-sale investments have been disposed of during the year ended 31 December 2016.

23. INVENTORIES

	2016 ***RMB'000***	2015 *RMB'000*
Raw materials and consumables	**1,130,300**	782,933
Work-in-progress	**323,276**	470,840
Semi-finished goods	**304,437**	1,032,555
Finished goods	**1,341,054**	1,900,095
Raw materials in transit	**–**	71,212
	3,099,067	4,257,635

As 31 December 2016, the carrying amounts of the Group's inventories were net of impairment provisions of approximately RMB226,472,000 (2015: RMB396,455,000).

24. TRADE RECEIVABLES

The following is an analysis of trade receivables at the end of each reporting period:

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	454,818	270,902
Less: allowance for impairment of trade receivables	(4,348)	(16,632)
	450,470	254,270

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

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

	2016	2015
	RMB'000	*RMB'000*
Within 90 days	448,651	253,818
91 to 180 days	1,693	369
181 to 365 days	16	83
Over 365 days	110	–
	450,470	254,270

24. TRADE RECEIVABLES (continued)

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

	2016	2015
	RMB'000	*RMB'000*
At the beginning of the year	**16,632**	19,019
Impairment loss recognised on trade receivables	**4,793**	–
Amounts written off as uncollectible	**(1,870)**	–
Reversal on impairment of trade receivables	**(15,207)**	(2,387)
At the end of the year	**4,348**	16,632

Included in the allowance for impairment of trade receivables are individually impaired trade receivables with an aggregate balances of approximately RMB4,348,000 (2015: RMB16,632,000) due to long outstanding and unsatisfactory repayment record.

The aged analysis of trade receivable that were past due but not impaired are as follows:

	2016	2015
	RMB'000	*RMB'000*
Past due but not impaired:		
Within 60 days	**62,031**	70,945
Over 60 days	**1,819**	452
	63,850	71,397

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of approximately RMB63,850,000 (2015: RMB71,397,000) as at 31 December 2016 which were past due at the end of each reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and there is no recent history of default, therefore the amounts are considered recoverable.

25. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments to suppliers	53,270	313,510
Prepaid lease payments	8,839	6,479
Other taxes recoverable	417,338	130,746
Interest receivables	160	151
Other receivables	887	59,651
	480,494	510,537

	2016 RMB'000	2015 RMB'000
Analysed for reporting purposes as:		
– Current assets	480,494	210,537
– Non-current assets	–	300,000
	480,494	510,537

26. AMOUNT DUE FROM (TO) HOLDING COMPANY

The details of amount due from (to) holding company is as follows:

	2016 RMB'000	2015 RMB'000
Advance to immediate holding company *(note i, 37(a)(vii))*	4,772,465	–
Accrued interest receivable from immediate holding company *(note i)*	49,380	–
Repayment from immediate holding company *(note 37(a)(vii))*	(1,845,836)	–
Fund inflow *(note ii, 37(a)(v))*	(3,820,500)	(900,000)
Fund outflow *(note ii, 37(a)(v))*	3,820,500	900,000
Amount due from immediate holding company *(note iii)*	2,976,009	–
Amount due to immediate holding company *(note iii)*	(59,060)	–

26. AMOUNT DUE FROM (TO) HOLDING COMPANY (continued)

Notes:

i) Included in advance to the immediate holding company was an amount of approximately RMB4,768,336,000 (2015: nil) which represents a short-term financing arrangement between the Group and the immediate holding company as detailed in Notes 37(a)(vii). Except the amount of approximately RMB2,522,500,000 was interest bearing which charged by the financial institution ranged at 5.0% to 5.9% are borne by the immediate holding company directly, the remaining balance are interest-free.

ii) The amount is unsecured and repayable on demand.

iii) The amount is unsecured, interest free and repayable on demand.

27. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

Pledged bank deposit

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

Bank balances and cash

Bank balances earned interest at floating rates based on daily bank deposit rates which range from 0.30% to 1.10% per annum (2015: 0.30% to 1.10% per annum).

28. TRADE PAYABLES

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

	2016	2015
	RMB'000	*RMB'000*
Within 90 days	**843,699**	826,565
91 to 180 days	**50,766**	26,526
181 to 365 days	**14,538**	2,751
Over 365 days	**32,595**	48,574
	941,598	904,416

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

29. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	*RMB'000*
Payroll payable	245,962	222,618
Accrued staff benefits	441,418	471,235
Receipt in advance	158,995	119,006
Other taxes payable	144,335	61,322
Interest payable	123,899	79,532
Other payables	116,468	161,890
	1,231,077	1,115,603

30. BANK AND OTHER BORROWINGS

	2016		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans			
– Unsecured	4.4-5.9	2017	3,644,500
– Secured	4.6	2017	100,000
Current portion of long term bank loans			
– Secured	4.8-5.8	2017	80,000
			3,824,500
Non-current			
Bank loans			
– Unsecured	4.8-6.1	2019	400,000
– Secured	4.6-5.7	2018-2019	534,500
Corporate bonds			
– Unsecured	5.9-7.4	2018-2019	5,991,667
			6,926,167
			10,750,667

30. BANK AND OTHER BORROWINGS (continued)

	2015		
	Effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans			
– Unsecured	3.2-5.9	2016	1,113,350
– Secured	4.6-4.9	2016	147,500
Current portion of long term bank loans			
– Secured	5.5-6.6	2016	468,000
			1,728,850
Non-current			
Bank loans			
– Secured	5.1-7.8	2017-2018	1,314,500
Corporate bonds			
– Unsecured	5.9-7.4	2018-2019	5,972,063
			7,286,563
			9,015,413

	2016	2015
	RMB'000	*RMB'000*
Bank loans repayable:		
Within one year	**3,824,500**	1,728,850
After one year but within two years	**394,500**	920,000
After two year but within five years	**540,000**	394,500
	4,759,000	3,043,350
Corporate bonds repayable:		
After one year but within two years	**3,000,000**	–
After two year but within five years	**2,991,667**	5,972,063
	5,991,667	5,972,063

30. BANK AND OTHER BORROWINGS (continued)

a) As at 31 December 2016, all Group's bank loans are denominated in RMB. As at 31 December 2015, an amount of approximately RMB56,360,000 (equivalent to US$9 million) of the Group's bank loan are denominated in US$. Other than that, all Group's bank loan are denominated in RMB.

b) As at 31 December 2016, certain of the Group's bank loans amounting to approximately RMB615 million (2015: RMB1,840 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB653 million (2015: RMB1,338 million).

c) As at 31 December 2016, nil (2015: RMB70 million) of bank loans of 濱州魏橋科技工業園有限公司 Binzhou Weiqiao Technology Industrial Park Company Limited* ("Binzhou Industrial Park") were secured by its trade receivables from the Company (2015: approximately RMB100 million), which were eliminated in the consolidated statement of financial position.

d) As at 31 December 2016, approximately of RMB100 million (2015: RMB90 million) of bank loans of 威海魏橋科技工業園有限公司 Weihai Weiqiao Technology Industrial Park Company Limited* ("Weihai Industrial Park") were guaranteed by the Company and were also secured by certain of the Company's buildings, machinery and equipment of an aggregate carrying value of nil (2015: RMB157 million).

e) In October 2013 and November 2014, the Company issued two domestic corporate bonds, (namely "2013 Bond" and "2014 Bond" respectively) each with a principal amount of RMB3 billion. These corporate bonds carry nominal interest rates of 7.00% and 5.50% per annum respectively, with denomination and issue price of RMB100 and periods of five years.

The Company has the right to raise the nominal interest rate by the end of third year and the bond holders have the right to redeem the corporate bonds within the first three working days only at the beginning of fourth year after the bond issue date (the "Redemption period"). After the Redemption Period, the rights of redemption are forfeited immediately. No right of redemption is granted by the Company after the redemption period to the maturity of the corporate bonds.

Subsequent to the completion of the issue, the corporate bonds were listed on the Shanghai Stock Exchange on 6 November 2013 and 26 November 2014 respectively.

No bond holders of 2013 Bond has exercised the right of redemption.

* *For identification purpose only*

31. DEFERRED INCOME

	2016	2015
	RMB'000	*RMB'000*
Analysed as:		
Current liabilities	**18,322**	38,289
Non-current liabilities	**180,457**	198,281
	198,779	236,570

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

32. DEFERRED TAXATION

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

	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets	**148,709**	268,030
Deferred tax liabilities	**(3,275)**	(3,552)
	145,434	264,478

32. DEFFERED TAXATION (continued)

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

	Allowances and deferred income	Accelerated tax depreciation	Accumulated tax losses	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	200,534	13,488	12,190	1,460	227,672
Credit (charge) to profit or loss	(14,140)	1,583	37,486	11,877	36,806
At 31 December 2015	186,394	15,071	49,676	13,337	264,478
Credit (charge) to profit or loss	(53,849)	2,582	(49,676)	(18,101)	(119,044)
At 31 December 2016	132,545	17,653	–	(4,764)	145,434

As at 31 December 2016, the Group has deductible temporary differences of RMB660,440,000 (2015: RMB1,072,120,000). Deferred tax assets of approximately RMB148,709,000 (2015: RMB268,030,000) has been recognised on approximately RMB594,836,000 (2015: RMB1,072,120,000). No deferred tax asset was recognised on the remaining amount of RMB65,604,000 (2015: nil) as it was uncertain that taxable profit would be available against which the deductible temporary differences can be utilised.

As at 31 December 2016, no deferred tax asset has been recognised on the tax losses of approximately RMB763,633,000 (2015: RMB262,604,000) due to the unpredictability of future profit streams.

As at 31 December 2016, the Group has tax losses of approximately RMB763,633,000 (31 December 2015: RMB461,308,000) that will be expired within next five years.

33. SHARE CAPITAL

	2016	2015
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	**780,770**	780,770
413,619,000 H shares of RMB1.00 each	**413,619**	413,619
	1,194,389	1,194,389

34. OPERATING LEASE COMMITMENT

The Group as lessee

The Group leases its land and properties under operating lease arrangement. Lease for land are negotiated for terms of twenty years, and those for properties for terms of three years. At the end of each reporting period, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016	2015
	RMB'000	*RMB'000*
Within one year	**28,240**	17,680
In the second to fifth years inclusive	**112,459**	69,459
After five years	**74,748**	75,281
	215,447	162,420

The Group as lessor

Property rental income earned during the year was approximately RMB800,000 (2015: RMB875,000). The properties are expected to generate rental yields of 2.47% on an ongoing basis. All of the properties held have committed tenants for the next year.

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

	2016	2015
	RMB'000	*RMB'000*
Within one year	**800**	800

35. COMMITMENTS

	2016	2015
	RMB'000	*RMB'000*
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the consolidated financial statements	7,151	3,800

36. 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:

	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	653,120	1,494,596
Pledged deposits	90,985	58,945
	744,105	1,553,541

37. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

Related party	**Nature of transaction**	**2016** *RMB'000*	2015 *RMB'000*
The Holding Company	Sales of textile products *(note i)*	**104,342**	304,629
	Sales of electricity *(note ii)*	**2,766,622**	2,565,567
	Gross rental income	**800**	800
	Purchase of steam *(note iii)*	**8,226**	4,346
	Expenses on land use rights and property leasing *(note iv)*	**17,965**	17,965
	Fund inflow *(note v)*	**3,820,500**	900,000
	Fund outflow *(note v)*	**3,820,500**	900,000
	Labour wages subsidies *(note vi)*	**64,813**	–
	Advance to immediate holding company *(note vii)*	**4,768,336**	–
	Repayment from immediate holding company *(note vii)*	**1,845,836**	–
Fellow subsidiaries	Sales of textile products *(note viii)*	**378,892**	1,071,138
濱州市濱北新材料有限公司 Binzhou Municipal Binbei New Material Co., Limited* ("Binzhou Binbei") *(note iii)*	Purchases of steam *(note iii)*	**30,182**	13,592

* *For identification purpose only*

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes:

(i) Textile products supply agreement with the Holding Company

On 21 October 2014 and 24 November 2014, 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 21 October 2014, it renewed the cotton yarn, grey fabric and denim supply agreement dated 31 October 2011 with a period of three years commencing on 1 January 2015 (the "Renewed Supply Agreement"). The Renewed Supply Agreement agreed upon a new maximum aggregate annual value of textile products supplied.

Pursuant to the Renewed Supply Agreement, 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").

(ii) Electricity supply agreement with the Holding Company

The Company made an announcement and issued a circular on 1 November 2013 and 12 November 2013 respectively, to disclose that the Company entered into a new supply of excess electricity agreement (the "Renewed Supply of Excess Electricity Agreement") with the Holding Company with a period of three years commencing on 1 January 2014 and the terms and conditions of the Renewed Excess Electricity Supply Agreement are basically the same as those of the Supply of Excess Electricity Agreement entered into on 4 November 2010, except for the newly agreed maximum aggregate value.

Pursuant to the agreement, the Company will supply excess electricity to the Holding Group at a price of RMB0.50 per kWh (including VAT at the rate of 17%) or the price at which a power plant in Shandong Province would sell its electricity generated to the relevant power grid, whichever is higher. However, if any applicable mandatory price for the electricity is announced by the PRC government, the mandatory price would be adopted instead.

The agreement mentioned above (the "Old Supply of Excess Electricity Agreement") expired on 31 December 2016, and the Company made an announcement and a circular, respectively, on 26 October 2016 to disclose that the Company entered into a new Supply of Excess Electricity Agreement (the "Renewed Supply of Excess Electricity Agreement") with the Holding Company with a period of three years commencing on 1 January 2017 and the terms and conditions of the Renewed Excess Electricity Supply Agreement are basically the same as those of the Old Supply of Excess Electricity Agreement except for the newly agreed maximum aggregate value.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(ii) Electricity supply agreement with the Holding Company (continued)

As for the new price calculation method, the Company and the Holding Company agreed on a benchmark price of excess electricity of RMB0.37 per kWh (including VAT at the rate of 17%) with a benchmark price of raw coal of RMB454.35 per ton(VAT inclusive). If any applicable mandatory price for the supply of electricity is prescribed by the PRC government, the benchmark price of excess electricity would be adjusted accordingly. The Company and 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 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.

(iii) Steam purchase agreements with the Holding Company and Binzhou Binbei

Binzhou Binbei is an indirect wholly-owned subsidiary of 中國宏橋集團有限公司 China Hongqiao Group Limited (“Hongqiao Group”). Mr. Zhang Shiping, the non-executive director of the Company, is the executive director and a controlling shareholder of Hongqiao Group.

On 3 July 2015, the Company made an announcement to disclose that the Company and Binzhou Industrial Park entered into a steam supply agreement with the Holding Company and Binzhou Binbei. Pursuant to the agreement, the Company and Binzhou Industrial Park will purchase steam from the Holding Company and Binzhou Binbei for production use, at a price of RMB150 per ton (including VAT at the rate of 13%) and RMB170 (including VAT at the rate of 13%) per ton respectively, for the period from 3 July 2015 to 31 December 2017.

(iv) Lease agreements with the Holding Company

The Group as lessee

For the years ended 31 December 2016 and 2015, 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 significant terms of the nine agreements are summarised as follows:

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

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(iv) Lease agreements with the Holding Company (continued)

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

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

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

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

(6) An operating 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, Weifang Road, Economic Development Zone, Zouping County, Shandong Province, the PRC. On 31 January 2016, the agreement has been renewed with the commencement date and expiry date on 1 February 2016 and 1 February 2019 respectively, and the other clauses and terms remain unchanged.

(7) A land use right lease agreement dated 1 May 2006 with the commencement date and expiry date on 1 May 2006 and 1 May 2026, respectively, was entered into with an annual rental of RMB7,001,000 for the land relating to the Zouping Industrial Park Area.

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(iv) Lease agreements with the Holding Company (continued)

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

On 26 November 2008 and 14 December 2011, respectively, the lease of certain parts of the land where the Zouping Third Industrial Park is situated was terminated and the annual rental has been adjusted thereafter to RMB3,816,000 and RMB2,070,000, respectively, on a prorate basis. Except for this, all of the original clauses and terms remain unchanged.

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

(v) Fund inflow and fund outflow with the Holding Company

During the year ended 31 December 2016, the Holding Company had deposited in banks of the aggregate of RMB3,821 million (2015: RMB900 million) to the Group companies' bank accounts ("fund inflow") in order to facilitate the Holding Company to comply with the bank's requirement, namely "Guidelines for Commercial Banks on the Management of Risks Associated with the Granting of Credit to Group Customers"*《商業銀行集團客戶授信業務風險管理指引》published by China Banking Regulatory Commission. And, the Group then transferred the same amount of RMB3,821 million (2015: RMB900 million) to the Holding Company ("fund outflow") within 2 working days. The amounts are unsecured and non-interest bearing.

* *For identification purpose only*

37. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with related parties (continued)

Notes: (continued)

(vi) Labour wages subsidies from the Holding Company

During the year ended 31 December 2016, the Holding Company has provided subsidies as a settlement for the labour wages of the Company.

(vii) Amount advance to and repayment from the Holding Company

During the year, the Company utilised the banking facilities and advanced the loan amounts to the Holding Company as a short-term financing.

The Holding Company repaid the loan amounts to the Company and the Company remitted to the banks as settlement of the loan amounts with banks.

During the year ended 31 December 2016, the Company has advanced an amount of approximately RMB4,768 million (2015: nil) and received an amount of approximately RMB1,846 million (2015: nil) on the outstanding amounts. The remaining balances had been subsequently settled in April 2017.

Included in the advance to the Holding Company was an amount of approximately RMB2,523 million, the Holding Company bears the same interest charged by the banks to the Company which ranges from 5.00% to 5.90%.

(viii) Sales of textile product to the fellow subsidiaries

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

(b) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 37(a), the Group entered into sales agreements with certain fellow subsidiaries for sale commitments amounting to approximately RMB28,256,000 (2015: RMB19,680,000), which are expected to be fulfilled in 2017.

37. RELATED PARTY TRANSACTIONS (continued)

(c) 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:

	2016	2015
	RMB'000	*RMB'000*
Short-term benefits	**4,766**	4,715
Post-employment benefits	**86**	80
	4,852	4,795

38. 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 2016, the total cost charged to consolidated statement of profit or loss and other comprehensive income of approximately RMB202,414,000 (2015: RMB201,989,000) represents contributions payable to these schemes by the Group in respect of the respective accounting period.

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

	Note	**2016**	2015
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**720,225**	7,512,346
Investment properties		**29,298**	30,298
Prepaid land lease payments		**–**	83,381
Other intangible assets		**122**	739
Investments in subsidiaries		**12,866,139**	1,716,218
Available-for-sale investments		**–**	1,298,000
Prepayments		**–**	300,000
Deferred tax assets		**22,208**	71,392
		13,637,992	11,012,374
Current assets			
Inventories		**724,850**	3,401,511
Trade receivables		**228,744**	214,868
Deposits, prepayments and other receivables		**1,431,467**	1,262,429
Amount due from immediate holding company	*(a)*	**2,926,009**	–
Amounts due from subsidiaries	*(a)*	**1,495,644**	–
Pledged deposits		**76,715**	55,217
Cash and cash equivalents		**10,219,604**	11,790,193
		17,153,033	16,724,218
Non-current assets classified as held for sale		**12,186**	25,963
		17,165,219	16,750,181
Current liabilities			
Trade payables		**1,542,976**	1,192,884
Other payables and accruals		**552,423**	677,789
Income tax payable		**678,379**	665,778
Bank and other borrowings		**3,724,500**	1,301,350
		6,498,278	3,837,801
Net current assets		**10,666,941**	12,912,380

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

	Note	**2016** **RMB'000**	2015 *RMB'000*
Total assets less current liabilities		**24,304,933**	23,924,754
Non-current liabilities			
Bank and other borrowings		**6,726,167**	7,086,563
Net assets		**17,578,766**	16,838,191
Equity			
Issued Capital		**1,194,389**	1,194,389
Reserves	*(b)*	**16,384,377**	15,643,802
		17,578,766	16,838,191

Note (a):

The amounts are unsecured, non-interest bearing and repayable on demand.

Note (b):

Movements in reserves

	Capital reserve *RMB'000*	**Statutory surplus reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2015	6,673,380	1,416,958	6,497,910	14,588,248
Profit and total comprehensive income for the year	–	–	1,147,880	1,147,880
Final 2014 dividend declared	–	–	(92,326)	(92,326)
Transfer from retained profits	–	114,788	(114,788)	–
At 31 December 2015	6,673,380	1,531,746	7,438,676	15,643,802
Profit and total comprehensive income for the year	**–**	**–**	**1,043,233**	**1,043,233**
Final 2015 dividend declared	**–**	**–**	**(302,658)**	**(302,658)**
Transfer from retained profits	**–**	**104,322**	**(104,322)**	**–**
At 31 December 2016	**6,673,380**	**1,636,068**	**8,074,929**	**16,384,377**

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2016	2015	**2016**	2015	
威海魏橋紡織有限公司 Weihai Weiqiao Textile Company Limited*	PRC	RMB148,000,000	**100%**	100%	**–**	–	Production and sale of cotton yarn and fabric
Binzhou Industrial Park	PRC	RMB600,000,000	**98.5%**	98.5%	**–**	–	Production and sale of cotton yarn and fabric
山東魯藤紡織有限公司 Shantong Luteng Textile Company Limited*	PRC	US$9,790,000	**75%**	75%	**–**	–	Production and sale of polyester yarn and related products
Weihai Industrial Park	PRC	RMB760,000,000	**100%**	100%	**–**	–	Production and sale of cotton yarn and fabric
山東濱藤紡織有限公司 Shantong Binteng Textile Company Limited*	PRC	US$15,430,000	**75%**	75%	**–**	–	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 Shantong Hongjie Textile Technology Company Limited* *(note i)*	PRC	RMB1,460,000,000	**100%**	–	**–**	–	Production and sale of cotton yarn and fabric

* *For identification purpose only*

40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
			Direct		Indirect		
			2016	2015	**2016**	2015	
山東宏儒紡織科技有限公司 Shantong Hongru Textile Technology Company Limited* *(note ii)*	PRC	RMB1,660,000,000	100%	–	–	–	Production and sale of cotton yarn and fabric
山東銘宏紡織科技有限公司 Shantong Minghong Textile Technology Company Limited* *(note iii)*	PRC	RMB580,000,000	100%	–	–	–	Production and sale of cotton yarn and fabric
鄒平縣匯能熱電有限公司 Zuoping County Huineng Thermal Power Company Limited* *(note iv)*	PRC	RMB6,550,000,000	100%	–	–	–	Production and sale of electricity

Notes:

i) Established in the PRC on 22 January 2016.

ii) Established in the PRC on 22 January 2016.

iii) Established in the PRC on 27 January 2016.

iv) Established in the PRC on 22 April 2016.

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

* *For identification purpose only*

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation of the current year for the purpose of better representation of the Group's activities:

Sales of electricity and steam of approximately RMB2,732,727,000 which had previously been recorded under "Other income" in the financial statements for the year ended 31 December 2015, was reclassified to "Revenue".

Cost of sales of electricity and steam of approximately RMB1,103,409,000 which had previously been recorded under "Other income" in the financial statements for the year ended 31 December 2015, was reclassified to "Cost of sales".

Exchange loss of approximately RMB9,795,000 which had previously been recorded under "Finance cost" in the financial statements for the year ended 31 December 2015, was reclassified to "Administrative expenses".

Receipt in advance of approximately RMB119,006,000 which had previously been recorded under "Trade payables" in the financial statements for the year ended 31 December 2015, was reclassified to "Other payables and accruals".

Fund inflow from and outflow to the immediate holding company of RMB900,000,000 are adjusted to the investing cash flows of the consolidated statement of cash flows for year ended 31 December 2015.