



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

2018

INTERIM REPORT



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Summary

Interim results for the six months ended 30 June 2018

- Revenue was approximately RMB8,410 million, representing a decrease of approximately 1.1% over the corresponding period of last year.
- Net profit attributable to owners of the Company was approximately RMB303 million, representing an increase of approximately 1.3% over the corresponding period of last year.
- Earnings per share were approximately RMB0.25 (same period last year: approximately RMB0.25).

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Zhang Shiping
Zhao Suhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chan Wing Yau, George
Chen Shuwen
Liu Yanzhao

SUPERVISORS

Wang Xiaoyun
Fan Xuelian
Bu Xiaoxia

COMPANY SECRETARY

Zhang Jinglei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Liu Yanzhao (*Chairman*)
Zhang Hongxia
Chen Shuwen

NOMINATION COMMITTEE

Zhang Hongxia (*Chairman*)
Chen Shuwen
Liu Yanzhao

AUTHORISED REPRESENTATIVES

Zhao Suwen
Zhang Jinglei

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LEGAL ADDRESS IN THE PRC

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Weiqiao Town
Zouping County
Shandong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Shandong Province
The PRC

INTERNATIONAL AUDITOR

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STOCK CODE

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Chairman's Statement

It is my pleasure to present on behalf of the board (the “Board”) of directors (the “Directors”) of Weiqiao Textile Company Limited (“Weiqiao Textile” or the “Company”) the unaudited consolidated interim results of the Company together with its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2018 (the “Period” or “Period under Review”).

In the first half of 2018, driven by the further recovery in the global economy and the positive performance of the PRC economy, market demand for textile products gradually recovered. The Chinese textile industry maintained a stable operation, which was characterized with high quality development.

Domestic demand grew at a steady pace. According to data from the National Bureau of Statistics of the PRC, for the first half of the year, the retail sales of apparel, footwear, headwear and knitwear by companies above a designated size in China increased by approximately 9.2% year-on-year, representing an increase of approximately 1.9 percentage points as compared with the corresponding period of last year. Growth in the domestic sales of the textile products and apparel was improved as compared with the corresponding period of last year, which was attributable to the overall positive and stable performance of the China's economy and the rapid growth of resident income, demonstrating the remarkable results achieved by the textile industry in optimizing supply structure and effectively satisfying domestic demand.

Total export of the industry continued to grow, and the Chinese textile products remained competitive. According to data from the General Administration of Customs of the PRC, the aggregated exports of textile products and apparel from the PRC were approximately US\$127.52 billion in the first half of the year, representing a year-on-year increase of approximately 3.2%. Among these, exports of textile products grew by approximately 10.3% on a year-on-year basis in the first half of the year as they remained competitive in the international markets, while exports of apparel were under greater pressure, which led to a year-on-year decrease of approximately 2.0% in the export amount.

In terms of raw materials (namely cotton), the global cotton price was on an upward track during the first half of 2018. As of the end of June, according to the COTLOOK A Index, the cotton price was 93.25 US cents per pound, increasing by approximately 4.4% as compared with that at the beginning of the year. As at the end of June, the cotton price under China Cotton Index 3128B increased by approximately RMB628 per ton or approximately 4.0% as compared with that at the beginning of the year.

During the Period, the Group achieved its high quality development by proactively taking measures to seize market opportunities, accelerating the shift in growth drivers and constantly improving corporate efficiency. During the Period, the Group recorded revenue of approximately RMB8,410 million, representing a decrease of approximately 1.1% as compared with the corresponding period of 2017. Net profit attributable to owners of the Company was approximately RMB303 million, representing an increase of approximately 1.3% as compared with the corresponding period of 2017. Earnings per share were RMB0.25. The gross profit margin of the Group's textile products was approximately 3.6% for the Period, representing an increase of approximately 1.2 percentage points over the same period of 2017.

Chairman's Statement

In terms of our textile business, the Group vigorously pushed forward the implementation of intelligent manufacturing by establishing the world-leading “Textile + AI” (“紡織+AI”) artificial intelligent yarn spinning workshop which provides “fully automatic production”, “intelligent control system” and “online monitoring information system”, enabling us to realize “continuous weaving under the mode of lights-out production”, and effectively pushing forward the transformation and upgrade of the Group. Meanwhile, in order to satisfy market demands for differentiated products, the Group developed a series of new high-tech and high added-value products through in-depth research and technology innovation, thus enhancing its product competitiveness. For example, the Group successfully launched a number of functional fabrics including smart thermostat fiber, anti-static, hollow-cotton, double-wrapped and super elastic functional denim as well as the one-time weaved, duvet-filled comforter shell fabric, creating new growth drivers for the Group.

In terms of the Group's electricity and steam business, the thermal power assets of the Group performed well. The Group strove to improve management efficiency and reduce wastage by adopting a refined and modular management approach, further optimizing the productivity of its power plants. However, the high coal price and rising labor costs put pressure on the production cost of the Group's electricity business. The Group proactively promoted green development. The Group fully implemented ultra-low emissions by installing flue gas dedusting facilities and desulphurization and denitrification facilities for all of the Group's power generating units, and successfully completed transformation work on the coal sheds, so as to realize the goal of “invisible coal combustion (燃煤不見煤)”.

Looking forward to the second half of 2018, it is expected that the industry will continue to maintain strong growth momentum in terms of domestic sales. However, under the backdrop of rising trade protectionism and increasing risks of trade frictions between China and the United States, the export of Chinese textile products is still surrounded with uncertainties.

As the global economic landscape undergoes significant transformation, Chinese manufacturing has entered into a new critical stage. The Group will keep a close watch on developments in the domestic and international arena, and will remain committed to technology innovation to generate new growth drivers by increasing investments in technology research and development. Through workflow modification and innovations in working approach and management mode, we will strive to improve efficiency and product quality, with an aim to push forward the low-carbon, digital and intelligent development of the textile industry. The Group will stick to the strategy of developing middle to high-end products, improving product quality and increasing the number of products catering to the market and consumer needs, so as to continuously improve the gross margin. At the same time, the Group will continue to optimize the productivity and operation of our power plants, with an aim to improve the overall profitability of the Group.

The management of Weiqiao Textile and I would like to express our gratitude to our shareholders for their unwavering support towards the Group. Looking forward, Weiqiao Textile will continue to integrate internal and external resources to enhance its competitive edge in domestic and overseas markets and speed up its pace towards middle and high-end manufacturing. Meanwhile, Weiqiao Textile will plan its future business development by proactively seeking and exploring new business opportunities, so as to create new growth drivers for the Group and create greater returns for our shareholders.

Zhang Hongxia

Chairman

Shandong, the PRC

17 August 2018



Management Discussion and Analysis

INDUSTRY REVIEW

In the first half of 2018, the global economy further recovered, while the PRC economy showed an overall stable and positive momentum. Under this macro backdrop, the sentiment of the Chinese textile industry further improved, with steady growth in overseas and domestic sales and gradual improvement in profitability.

During the Period, we witnessed recovery in domestic consumption driven by consumption upgrading. According to statistics from the National Bureau of Statistics of the PRC, the total retail sales of consumer goods of the country grew by approximately 9.4% year-on-year to approximately RMB18,001.8 billion in the first half of 2018, of which the total retail sales of apparel, footwear, headwear and knitwear by companies above a designated size in China amounted to approximately RMB665.1 billion, representing a year-on-year increase of approximately 9.2%.

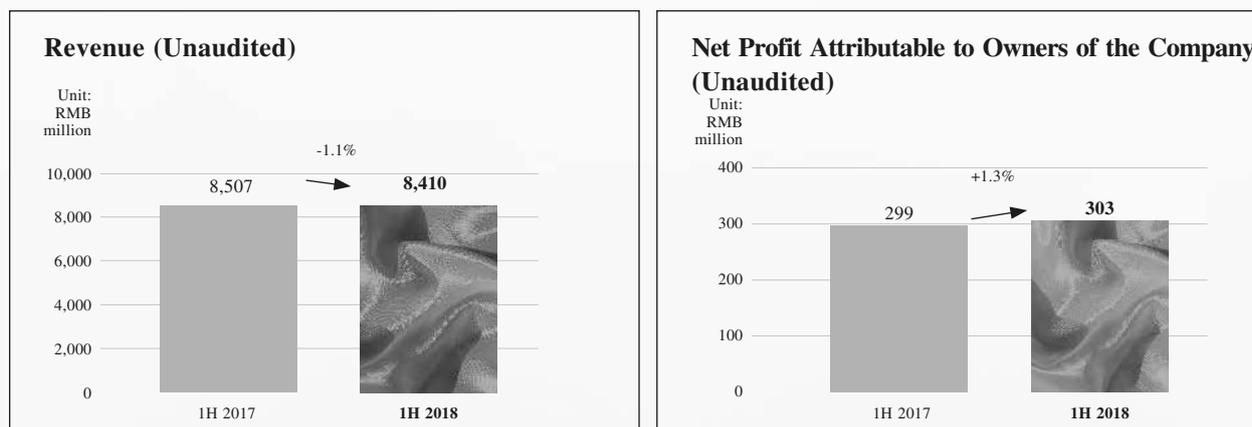
Driven by the increase in demands from the overseas markets, the export of textile products and apparel continued to grow. According to statistics from the General Administration of Customs of the PRC, the aggregated exports of textile products and apparel from the PRC were approximately US\$127.52 billion in the first half of 2018, representing a year-on-year increase of approximately 3.2%.

In terms of raw materials, the global cotton price was on an upward track during the first half of 2018. As of the end of June 2018, according to the COTLOOK A Index, the cotton price was 93.25 US cents per pound, increasing by approximately 4.4% as compared with that at the beginning of the year. As at the end of June 2018, the cotton price under China Cotton Index 3128B increased by approximately RMB628 per ton or approximately 4.0% as compared with that at the beginning of 2018.

Management Discussion and Analysis

BUSINESS REVIEW

For the six months ended 30 June 2018 and the corresponding period of 2017, the Group's unaudited revenue and the net profit attributable to owners of the Company, together with the comparative figures are as follows:

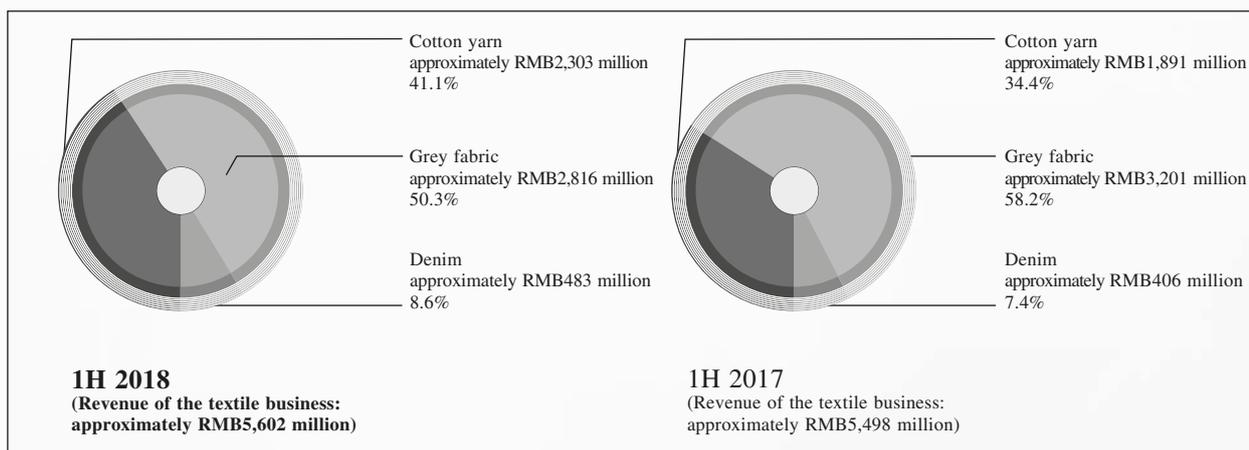


For the six months ended 30 June 2018, the Group recorded revenue of approximately RMB8,410 million, representing a decrease of approximately 1.1% as compared with the corresponding period of 2017, where the revenue of textile products was approximately RMB5,602 million, representing an increase of approximately 1.9% over the corresponding period of last year mainly due to the increase in sales volume in Hong Kong SAR, China, the Southeast Asia and other emerging markets as the Group took proactive initiatives to explore the emerging markets. The revenue of electricity and steam was approximately RMB2,808 million, representing a decrease of approximately 6.7% over the corresponding period of last year mainly due to the slight decrease in power output as some of the power generating units were under maintenance as scheduled and the increase in self-consumed electricity for the textile production by the Group during the Period. The net profit attributable to owners of the Company was approximately RMB303 million, representing an increase of approximately 1.3% as compared with the corresponding period of last year.

Management Discussion and Analysis

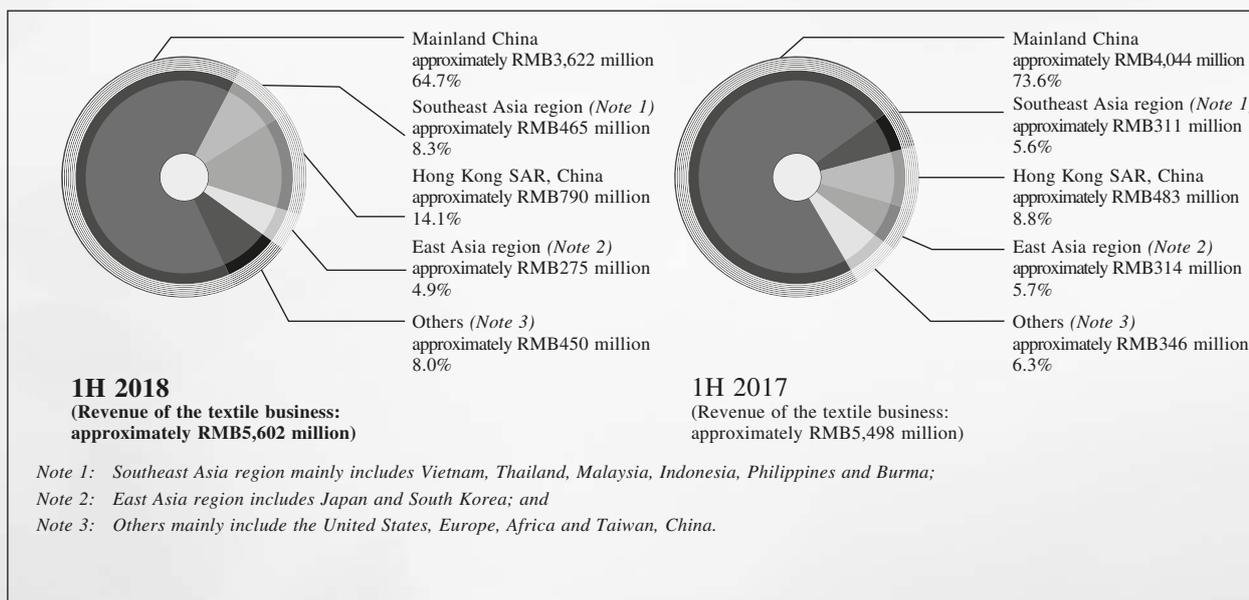
Textile Business

The charts below are the comparison of the breakdown of revenue of the textile business by products for the six months ended 30 June 2018 and the corresponding period of 2017, respectively:



For the six months ended 30 June 2018, the revenue of the Group's cotton yarn recorded an increase over the corresponding period of last year, which was mainly due to the increase in sales volume of cotton yarn in Hong Kong SAR, China and the Southeast Asia region as the Group stepped up sales efforts and proactively explored the emerging markets in Asia Pacific region. The revenue of grey fabric recorded a decrease, which was mainly because that part of the grey fabric inventory from the previous years were sold with increased sales efforts by the Group during the same period of last year, while sales volume and production volume were nearly the same during the first half of this year.

The following charts show the geographic breakdown of revenue of the textile business for the six months ended 30 June 2018 and the corresponding period of 2017, respectively:



Management Discussion and Analysis

For the six months ended 30 June 2018, revenue generated from overseas and domestic markets accounted for approximately 35.3% and approximately 64.7% of the Group's total revenue respectively. The increase in the proportion of overseas sales was mainly attributable to the increase in sales volume of cotton yarn in Hong Kong SAR, China, the Southeast Asia region and other emerging markets as the Group stepped up sales efforts and proactively explored the markets in the Asia Pacific region.

During the Period under Review, the Group adjusted the production plans timely according to the market conditions. The output of the Group's cotton yarn was approximately 208,000 tons, representing an increase of approximately 8.9% compared with the corresponding period of last year; the output of grey fabric was approximately 435 million meters, representing an increase of approximately 4.8% as compared with the corresponding period of last year; the output of denim was approximately 35 million meters, which was in line 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 Period under Review.

Electricity and Steam Business

As at 30 June 2018, the installed capacity of the Group's thermal power assets amounted to 2,760 MW. In the first half of 2018, the power generation amount of the Group was approximately 8,880 million kWh, representing a decrease of approximately 3.7% as compared with the corresponding period of last year and the volume of electricity sold amounted to approximately 7,607 million kWh, representing a decrease of approximately 6.2% over the corresponding period of last year, which was mainly due to a slight decrease in power output as some of the power generating units were under maintenance as scheduled and the increase in self-consumed electricity for the production of textile products by the Group.

During the Period under Review, the average utilization hours of the power generating units of the Group amounted to approximately 3,217 hours, representing a decrease of approximately 281 hours as compared with approximately 3,498 hours as recorded for the corresponding period of last year.

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

For the first half of 2018, the revenue of the Group's sales of electricity and steam amounted to approximately RMB2,808 million, representing a decrease of approximately 6.7% as compared with the corresponding period of last year; the gross profit thereof was approximately RMB676 million, representing a decrease of approximately 21.3% as compared to the corresponding period of last year. The decrease in revenue from sales of electricity as compared with the corresponding period of last year was mainly attributable to the slight decrease in power output as some of the power generating units were under maintenance as scheduled and a drop in the revenue due to the decrease in the volume of electricity sold as a result of increase in self-consumed electricity for the production of textile products by the Group.

Management Discussion and Analysis

FINANCIAL REVIEW

Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's gross profit and gross profit margin attributable to its major products for the six months ended 30 June 2018 and the corresponding period in 2017, respectively:

Product categories	For the six months ended 30 June			
	2018		2017	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
Cotton yarn	65,891	2.9	110,441	5.8
Grey fabric	81,990	2.9	(55,218)	(1.7)
Denim	54,398	11.3	77,183	19.0
Electricity and steam	675,713	24.1	858,909	28.5
Total	877,992	10.4	991,315	11.7

For the six months ended 30 June 2018, the gross profit from the sales of textile products of the Group increased by approximately 53.0% from the corresponding period of last year to approximately RMB202 million. The gross profit margin was approximately 3.6%, representing an increase of approximately 1.2 percentage points over the corresponding period of last year, which was mainly due to higher profit driven by the increase in price of textile products during the Period. The gross profit from the sales of electricity and steam decreased by approximately 21.3% from the corresponding period of last year to approximately RMB676 million, and the gross profit margin was approximately 24.1%, down by approximately 4.4 percentage points from that of the same period of last year, which was primarily due to several factors including rising raw material costs and increasing staff costs.

Management Discussion and Analysis

Selling and Distribution Expenses

For the six months ended 30 June 2018, the Group's selling and distribution expenses were approximately RMB92 million, representing a decrease of approximately 8.0% as compared with approximately RMB100 million as recorded in the corresponding period of last year. Among these expenses, transportation costs decreased by approximately 15.2% to approximately RMB56 million from approximately RMB66 million for the same period of last year, which was mainly attributable to the decrease in the fees for transportation due to the decrease in domestic sales of the Group's textile products during the Period. Salary of the sales staff was approximately RMB24 million, representing an increase of approximately 9.1% from approximately RMB22 million for the corresponding period of last year, which was mainly attributable to the increase of the remuneration of the sales staff during the Period. Sales commission was approximately RMB8 million, representing an increase of approximately 100.0% from approximately RMB4 million for the corresponding period of last year, which was mainly due to the increase in the overseas sales and the export sales of the Group through brokers, resulting in an increase in commissions paid accordingly.

Administrative Expenses

For the six months ended 30 June 2018, the administrative expenses of the Group were approximately RMB119 million, representing a decrease of approximately 5.6% from approximately RMB126 million for the corresponding period of last year. The decrease was primarily attributable to the decrease in provision for depreciation due to the phase-out of certain old equipment as the Group carried out technology improvement.

Finance Costs

For the six months ended 30 June 2018, finance costs of the Group were approximately RMB219 million, representing a decrease of approximately 26.8% from approximately RMB299 million for the corresponding period of last year, primarily due to the repayment of a portion of the interest-bearing bank borrowings by the Group and the repurchase of corporate bonds in an amount of approximately RMB2,037 million by the Group according to the terms of such bonds in November 2017.

Liquidity and Financial Resources

The working capital of the Group is mainly financed by cash inflow from operating activities. For the six months ended 30 June 2018, the Group recorded a net cash inflow from operating activities of approximately RMB1,226 million, a net cash outflow from investing activities of approximately RMB93 million and a net cash outflow from financing activities of approximately RMB637 million.



Management Discussion and Analysis

As of 30 June 2018, cash and cash equivalents of the Group were approximately RMB13,219 million, representing an increase of approximately 3.9% from approximately RMB12,723 million as of 31 December 2017, mainly attributable to net cash inflow generated from operating activities during the Period. The Group will continue to take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs so as to maintain a sound and stable financial position.

For the six months ended 30 June 2018, the average turnover days of the Group's receivables were 10 days, which were basically in line with the turnover days of 9 days as recorded for the corresponding period of 2017.

For the six months ended 30 June 2018, the inventory turnover days of the Group were 61 days, which represented a decrease of 6 days from 67 days for the same period of 2017, basically remaining flat.

For the six months ended 30 June 2018, the Group did not use financial derivative instruments and the Group also did not use financial derivative instruments for the corresponding period of last year.

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

Net profit attributable to owners of the Company was approximately RMB303 million for the six months ended 30 June 2018, representing an increase of approximately 1.3% from approximately RMB299 million for the corresponding period of last year.

For the six months ended 30 June 2018, basic earnings per share of the Company were RMB0.25.

Capital Structure

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

As at 30 June 2018, the debts of the Group were mainly bank loans totaling of approximately RMB3,020 million (31 December 2017: approximately RMB3,262 million) and corporate bonds amounting to approximately RMB3,963 million (31 December 2017: approximately RMB3,963 million). The Group repurchased the corporate bonds in an amount of approximately RMB2,037 million according to the terms of such bonds in November 2017, further reducing the debt level of the Group. Cash and cash equivalents of the Group were approximately RMB13,219 million (31 December 2017: approximately RMB12,723 million). As at 30 June 2018, the Group's gearing ratio (net debt (after deducting interest-bearing bank and other borrowings of cash and cash equivalents) divided by total equity) was approximately -34.5% (31 December 2017: approximately -30.6%).

Management Discussion and Analysis

Details of the outstanding bank loans as at 30 June 2018 are set out in Note 17 to the unaudited interim condensed consolidated financial statements. The Group manages its interest expenses through a fixed rate and floating rate liabilities portfolio. As at 30 June 2018, approximately 83.8% of the Group's bank loans were subject to fixed interest rates while the remaining of approximately 16.2% were subject to floating interest rates.

As at 30 June 2018, the Group's loans were denominated in Renminbi, while cash and cash equivalents were denominated in RMB and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 0.8% of the total amount.

Pledged Assets

Details of pledged assets of the Group are set out in Note 17 to the unaudited interim condensed consolidated financial statements.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total of approximately 54,000 employees, representing a decrease of approximately 4,000 employees as compared with that of the corresponding period of last year. Decrease in the number of the staff was mainly normal employee turnover during the Period. Total staff costs of the Group during the Period amounted to approximately RMB1,580 million, representing an increase of approximately 13.3% from approximately RMB1,394 million as recorded for the corresponding period of last year, which was mainly attributable to the increase in staff salaries by the Group during the Period.

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

Exposure to Foreign Exchange Risks

The Group adopts a strict and prudent policy in managing exchange rate risks. Export revenue and import procurement of the Group are settled in US dollars, and a portion of bank deposits are denominated in US dollars. For the six months ended 30 June 2018, approximately 23.5% of the Group's revenue and approximately 6.0% of the costs of the procurement of cotton were denominated in US dollars. For the six months ended 30 June 2018, the Group recorded the exchange gain of approximately RMB5 million due to the depreciation of Renminbi. During the Period, the Group did not experience any significant difficulties or impacts on the operations or liquidity as a result of the fluctuations in currency exchange rates. The Directors believe that the Group will have sufficient foreign currency to meet its demands.



Management Discussion and Analysis

Capital Commitments

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

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

Taxation

The tax of the Group decreased from approximately RMB235 million for the first half of 2017 to approximately RMB192 million for the first half of 2018, representing a decrease of approximately 18.3%. Such decrease in tax was mainly attributable to the decrease in the Group's profit before tax for the Period.

EVENTS AFTER THE REPORTING PERIOD

Subsequent to 30 June 2018, no significant event has taken place in the Group.

OUTLOOK

Looking forward to the second half of 2018, despite the more complicated macro environment both at home and overseas and the increasing risk factors, the domestic and international macro economy is expected to maintain a stable recovery momentum, and the textile industry is also likely to maintain stable performance in the second half of the year.

Under the backdrop of steady growth in domestic demand and basically stable overseas demand, the textile industry is expected to maintain a stable performance in the second half of the year. Adhering to its strategy of placing equal emphasis on domestic sales and overseas exports, the Group will further optimize its trade structure. On the export front, the Group will focus on stabilizing market share, while on the domestic front, efforts will be made to explore further into mid to high-end markets and develop new products by paying closer attention to market demands.

In terms of overall strategy, the Group will continue to implement structural adjustments, promote high quality development, accelerate the shift in growth drivers and promote intelligent manufacturing to improve the Group's development quality and profitability. With respect to daily operations, the Group will continue to improve overall management and operation efficiency and strengthen internal control management. The Group will source cotton globally in line with changes in the market for raw textile materials, so as to reduce the impact of cotton price fluctuations on operating results. Efforts will be made to promote equipment and upgrade technology alongside improvement in labor efficiency and reduction of labor costs. The Group will also strictly comply with the requirements of energy conservation and environmental protection, in an effort to promote "green manufacturing".

Supplementary Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, so far as known to any Directors, supervisors and chief executives of the Company, the following persons (other than a Director, supervisor and 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 of Hong Kong Limited (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 shareholders	Number of domestic shares (Note 1)	Approximate percentage of total issued domestic share capital as at 30 June 2018 (%)	Approximate percentage of total issued share capital as at 30 June 2018 (%)
Shandong Weiqiao Chuangye Group Company Limited (the “Holding Company”)	757,869,600 (Long position)	97.07	63.45
Shandong Weiqiao Investment Holdings Company Limited (“Weiqiao Investment”)	757,869,600 (Long position) (Note 2)	97.07	63.45

Interests in the H Shares of the Company:

Name of shareholders	Type of interest	Number of H Shares (Note 3)	Approximate percentage of total issued H share capital as at 30 June 2018 (%)	Approximate percentage of total issued share capital as at 30 June 2018 (%)
Brandes Investment Partners, L.P.	Investment manager	65,414,520 (Long position) (Note 4)	15.82	5.48
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 5)	9.93	3.44

Supplementary Information

Note 1: Unlisted shares.

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

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

Note 4: These 65,414,520 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, so far as known to the Directors, supervisors and chief executives of the Company, as at 30 June 2018, there was no other person (other than a Director, supervisor and 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 provision of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2018, the interests of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company and 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 deemed or taken 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 Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the domestic shares of the Company:

Name of shareholders	Type of interest	Number of domestic shares (Note 1)	Approximate percentage of total issued domestic share capital as at 30 June 2018 (%)	Approximate percentage of total issued share capital as at 30 June 2018 (%)
Zhang Hongxia (Executive Director/ Chairman)	Beneficial interests	17,700,400	2.27	1.48
Zhang Shiping (Non-executive Director)	Beneficial interests	5,200,000	0.67	0.44

Note 1: Unlisted shares

Supplementary Information

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

Name of shareholders	Name of associated corporation	Type of interest	Approximate percentage of total issued share capital as at 30 June 2018 (%)
Zhang Shiping (Non-executive Director)	Holding Company	Beneficial interests	31.59
Zhang Hongxia (Executive Director)	Holding Company	Beneficial interests and spouse interests (Note 1)	9.73 (Note 1)
Zhang Yanhong (Executive Director)	Holding Company	Beneficial interests	5.63
Zhao Suwen (Executive Director)	Holding Company	Beneficial interests	0.38
Zhao Suhua (Non-executive Director)	Holding Company	Spouse interests (Note 2)	4.93 (Note 2)

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

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

Save as disclosed above, as at 30 June 2018, none of the Directors, supervisors and chief executives of the Company and their respective associates had any interest or short position 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 was 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 deemed or taken 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.



Supplementary Information

INTERIM DIVIDEND

The Board did not recommend any payment of the interim dividend for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

PURCHASE OF ADDITIONAL H SHARES OF THE COMPANY BY THE HOLDING COMPANY

The Holding Company, through its wholly-owned subsidiaries, purchased additional 278,000, 322,000, 265,500, 270,000, 261,500, 360,000, 400,000 and 414,500 H shares of the Company on 19 June 2018, 20 June 2018, 21 June 2018, 22 June 2018, 25 June 2018, 26 June 2018, 28 June 2018 and 29 June 2018 respectively, amounting to a total of additional 2,571,500 H shares, representing approximately 0.62% of total issued H share capital as at 30 June 2018.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee is comprised of three independent non-executive Directors. An audit committee meeting was convened on 17 August 2018 to review the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018 and give opinions and recommendations to the Board. The Audit Committee also engaged an external auditor to review the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2018.

REMUNERATION COMMITTEE

The Company has established a remuneration committee in accordance with the corporate governance requirements of listed companies of the Stock Exchange. The objective of this committee is to set out and make suggestions on the appraisal standards for Directors and senior management, and study and review the remuneration policies and arrangements for Directors and senior management. The remuneration committee is comprised of three Directors. A remuneration committee meeting was convened on 16 March 2018, at which the resolution with regard to Directors' payroll and bonus as well as supervisors' remuneration for the year of 2018 was passed.

Supplementary Information

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions and, where applicable, adopted the recommended best practices as set out in the CG Code throughout the six-month period ended 30 June 2018.

SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code for securities transactions on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with the Directors, the Company has confirmed that each of the Directors complied with the Model Code during the six months ended 30 June 2018.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this interim report will be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.wqfz.com>). An interim report for the six months ended 30 June 2018 containing all the applicable information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and published on the websites of the Stock Exchange and the Company on or before 15 September 2018.



Independent Review Report

TO THE BOARD OF DIRECTORS OF WEIQIAO TEXTILE COMPANY LIMITED

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

INTRODUCTION

We have reviewed the accompanying interim financial statements of Weiqiao Textile Company Limited (the “Company”) and its subsidiaries set out on page 21 to 52 which comprise the condensed consolidated statement of financial position as at 30 June 2018, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes.

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

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

SCOPE OF REVIEW

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

CONCLUSION

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

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

17 August 2018

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

For the six months ended 30 June 2018

	Notes	For the six months ended	
		2018	2017
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	8,410,118	8,506,539
Cost of sales		<u>(7,532,126)</u>	<u>(7,515,224)</u>
Gross profit		877,992	991,315
Other income	5	67,522	97,654
Selling and distribution expenses		(92,167)	(100,104)
Administrative expenses		(119,337)	(126,110)
Other expenses		(21,236)	(31,537)
Finance costs	6	(219,083)	(298,734)
Share of profit of an associate		<u>489</u>	<u>1,424</u>
Profit before taxation		494,180	533,908
Income tax expenses	7	<u>(191,892)</u>	<u>(234,949)</u>
Profit and total comprehensive income for the period	8	<u>302,288</u>	<u>298,959</u>
Attributable to:			
Owners of the Company		302,524	299,495
Non-controlling interests		<u>(236)</u>	<u>(536)</u>
		<u>302,288</u>	<u>298,959</u>
Earnings per share attributable to the Owners of the Company			
Basic and diluted (RMB)	10	<u>0.25</u>	<u>0.25</u>

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	<i>Notes</i>	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	11,392,254	11,857,128
Investment properties		21,890	22,258
Prepaid lease payments		335,071	339,491
Other intangible assets		99	106
Investment in an associate		75,103	74,613
Deposits paid for acquisition of property, plant and equipment		–	5,378
Prepayments		2,084	–
Deferred tax assets		74,458	104,690
Total non-current assets		11,900,959	12,403,664
Current assets			
Inventories	12	2,413,987	2,624,939
Trade receivables	13	540,241	400,918
Deposits, prepayments and other receivables	14	300,565	298,416
Pledged deposits		74,923	33,000
Cash and cash equivalents		13,219,380	12,723,317
		16,549,096	16,080,590
Non-current assets classified as held for sale	11	12,284	28,221
Total current assets		16,561,380	16,108,811
Current liabilities			
Trade payables	15	721,614	968,220
Other payables and accruals	16	1,481,334	1,177,399
Income tax payable		1,002,171	981,515
Bank and other borrowings	17	6,020,000	6,262,350
Deferred income		18,321	18,321
Total current liabilities		9,243,440	9,407,805
Net current assets		7,317,940	6,701,006
Total assets less current liabilities		19,218,899	19,104,670

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

As at 30 June 2018

	<i>Notes</i>	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)
Equity			
Issued capital	18	1,194,389	1,194,389
Reserves		<u>16,858,313</u>	<u>16,735,860</u>
		18,052,702	17,930,249
Non-controlling interests		<u>28,626</u>	<u>28,862</u>
Total equity		<u>18,081,328</u>	<u>17,959,111</u>
Non-current liabilities			
Bank and other borrowings	17	962,755	962,755
Deferred income		168,825	176,329
Deferred tax liabilities		<u>5,991</u>	<u>6,475</u>
Total non-current liabilities		<u>1,137,571</u>	<u>1,145,559</u>
		<u>19,218,899</u>	<u>19,104,670</u>

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company						Total equity
	Issued capital	Capital reserve	Statutory surplus reserve	Retained profits	Total	Non-controlling interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017 (Audited)	1,194,389	6,692,079	1,766,140	8,277,641	17,930,249	28,862	17,959,111
Adjustment (note 2.3)	-	-	-	(913)	(913)	-	(913)
At 1 January 2018 (Unaudited)	1,194,389	6,692,079	1,766,140	8,276,728	17,929,336	28,862	17,958,198
Profit and total comprehensive income for the period	-	-	-	302,524	302,524	(236)	302,288
Final 2017 dividend declared	-	-	-	(179,158)	(179,158)	-	(179,158)
At 30 June 2018 (Unaudited)	<u>1,194,389</u>	<u>6,692,079</u>	<u>1,766,140</u>	<u>8,400,094</u>	<u>18,052,702</u>	<u>28,626</u>	<u>18,081,328</u>
At 1 January 2017 (Audited)	1,194,389	6,664,645	1,690,526	8,165,435	17,714,995	65,743	17,780,738
Profit and total comprehensive income for the period	-	-	-	299,495	299,495	(536)	298,959
Acquisition of additional interests in subsidiaries (note 21)	-	27,434	-	-	27,434	(35,690)	(8,256)
At 30 June 2017 (Unaudited)	<u>1,194,389</u>	<u>6,692,079</u>	<u>1,690,526</u>	<u>8,464,930</u>	<u>18,041,924</u>	<u>29,517</u>	<u>18,071,441</u>

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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Net cash generated from operating activities	<u>1,225,685</u>	<u>1,445,530</u>
Investing activities		
Purchase of property, plant and equipment	(105,890)	(102,825)
(Increase) decrease in pledged deposits	(41,923)	45,393
Bank interest income received	19,979	17,802
Proceeds from disposal of property, plant and equipment	3,457	1,672
Proceeds from disposal of non-current assets held for sale	31,345	17,493
Repayment from immediate holding company	<u>-</u>	<u>2,926,629</u>
Net cash (used in) generated from investing activities	<u>(93,032)</u>	<u>2,906,164</u>
Financing activities		
Repayment of bank borrowings	(1,214,350)	(1,830,000)
Interest paid	(219,083)	(265,224)
Dividend paid	(179,158)	-
Government grant received	4,001	6,942
New bank borrowings raised	972,000	778,350
Acquisition of additional interests in subsidiaries	<u>-</u>	<u>(8,256)</u>
Net cash used in financing activities	<u>(636,590)</u>	<u>(1,318,188)</u>
Net increase in cash and cash equivalents	496,063	3,033,506
Cash and cash equivalents at the beginning of the period	<u>12,723,317</u>	<u>11,292,430</u>
Cash and cash equivalents at the end of the period represented by cash and cash equivalents	<u>13,219,380</u>	<u>14,325,936</u>



Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. GENERAL INFORMATION AND BASIS OF PREPARATION

Weiqiao Textile Company Limited (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, Zouping 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”), both of which are limited liability companies established in the PRC.

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

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

The proceed on government grant received of approximately RMB6,942,000 for the six months ended 30 June 2017 was previously included in cash generated from investing activities in the condensed consolidated statement of cash flows. To conform to current year’s presentation, the abovementioned amounts have been presented in cash used in financing activities in the condensed consolidated statement of cash flows to facilitate a better presentation.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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

Other than changes in accounting policies resulting from application of new Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies used in the condensed consolidated interim financial statements for the six months ended 30 June 2018 are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017.

* For identification purpose

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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

In the current interim period, the Group has applied, for the first time, the following new standards and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated interim financial statements.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRSs	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfer of Investment Property
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in change in accounting policies, amounts reported and/or disclosures as described below.

2.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.



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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments *(continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 *(continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if any) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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



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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments *(continued)*

2.1.1 *Key changes in accounting policies resulting from application of HKFRS 9 (continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables, where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

2.1.2 *Summary of effects arising from initial application of HKFRS 9*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of other receivables are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments *(continued)*

2.1.2 Summary of effects arising from initial application of HKFRS 9 *(continued)*

As at 1 January 2018, the additional credit loss allowance on trade receivables and other receivables of approximately RMB712,000 and RMB505,000 have been recognised against retained earnings respectively. The additional loss allowance is charged against the respective asset.

The loss allowance for trade and other receivables as at 31 December 2017 reconcile to the opening balances as at 1 January 2018 and for the six months ended 30 June 2018 is as follows:

	Trade receivables RMB'000	Other receivables RMB'000
At 31 December 2017 (Audited) – HKAS 39	4,451	–
Amounts remeasured through opening retained earnings	<u>712</u>	<u>505</u>
At 1 January 2018 (Unaudited)	5,163	505
Allowance made for the period	<u>427</u>	<u>35</u>
At 30 June 2018 (Unaudited)	<u>5,590</u>	<u>540</u>

2.2 Impact and changes in accounting policies of application on HKFRS 15 Revenue from contracts with customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognised revenue derived from the sales of cotton yarn, grey fabric, denim, and from electricity and steam.



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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impact and changes in accounting policies of application on HKFRS 15 Revenue from contracts with customers *(continued)*

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

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

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.2 Impact and changes in accounting policies of application on HKFRS 15 Revenue from contracts with customers *(continued)*

2.2.1 *Key changes in accounting policies resulting from application of HKFRS 15 (continued)*

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

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

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

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

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

For the six months ended 30 June 2018

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

2.3 Impact on opening balances of condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	As at 31 December 2017	HKFRS 9	As at 1 January 2018
	RMB'000 (Audited)	RMB'000	RMB'000 (Unaudited)
Trade receivables	400,918	(712)	400,206
Deposits, prepayments and other receivables	298,416	(505)	297,911
Deferred tax assets	104,690	304	104,994
Retained profits	<u>8,277,641</u>	<u>(913)</u>	<u>8,276,728</u>

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

For the six months ended 30 June 2018

3. REVENUE

Revenue represents revenue arising from sales of cotton yarn, grey fabric, denim, and from electricity and steam, net of sales discounts and sales related taxes, for both periods. An analysis of the Group's revenue for both period is as follows:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cotton yarn	2,303,211	1,891,225
Grey fabric	2,815,456	3,200,252
Denim	482,905	406,112
Electricity and steam	2,808,546	3,008,950
	<u>8,410,118</u>	<u>8,506,539</u>

4. 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.

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

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

For the six months ended 30 June 2018

4. SEGMENT INFORMATION *(continued)*

Segment revenues and results

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

For the six months ended 30 June 2018

	Textile products RMB'000 (Unaudited)	Electricity and steam RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
External revenue	5,601,572	2,808,546	8,410,118
Inter-segment revenue	—	382,770	382,770
Segment revenue	<u>5,601,572</u>	<u>3,191,316</u>	8,792,888
Eliminations			(382,770)
Group revenue			<u>8,410,118</u>
Segment profit	<u>118,454</u>	<u>650,187</u>	768,641
Unallocated income			67,522
Unallocated corporate expenses			(123,389)
Unallocated finance costs			(219,083)
Share of profit of an associate			<u>489</u>
Profit before tax			<u>494,180</u>

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

For the six months ended 30 June 2018

4. SEGMENT INFORMATION *(continued)*

Segment revenues and results *(continued)*

For the six months ended 30 June 2017

	Textile products RMB'000 (Unaudited)	Electricity and steam RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
External revenue	5,497,589	3,008,950	8,506,539
Inter-segment revenue	—	338,746	338,746
Segment revenue	<u>5,497,589</u>	<u>3,347,696</u>	8,845,285
Eliminations			(338,746)
Group revenue			<u>8,506,539</u>
Segment profit	<u>67,951</u>	<u>819,446</u>	887,397
Unallocated income			97,654
Unallocated corporate expenses			(153,833)
Unallocated finance costs			(298,734)
Share of profit of an associate			<u>1,424</u>
Profit before tax			<u>533,908</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, other income, finance costs and share of profit of an associate. 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.

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

For the six months ended 30 June 2018

4. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

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

Segment assets

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Textile products	7,488,871	7,765,654
Electricity and steam	<u>7,307,670</u>	<u>7,540,489</u>
Total segment assets	14,796,541	15,306,143
Investment in an associate	75,103	74,613
Corporate and other assets	<u>13,590,695</u>	<u>13,131,719</u>
Total assets	<u>28,462,339</u>	<u>28,512,475</u>

Segment liabilities

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Textile products	1,319,607	1,365,869
Electricity and steam	<u>701,226</u>	<u>728,467</u>
Total segment liabilities	2,020,833	2,094,336
Corporate and other liabilities	<u>8,360,178</u>	<u>8,459,028</u>
Total liabilities	<u>10,381,011</u>	<u>10,553,364</u>

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

For the six months ended 30 June 2018

4. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

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

- All assets are allocated to operating segment, other than other intangible assets, investment in an associate, deferred tax assets, unallocated deposits, prepayments and other receivables, pledged bank deposits, cash and cash equivalents 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.

5. OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income (<i>note i</i>)	19,979	51,312
Release of deferred income	9,569	9,476
Government grants (<i>note ii</i>)	1,936	6,942
Compensation from suppliers on the supply of sub-standard goods	6,403	11,643
Gross rental income	400	400
Exchange gain, net	5,331	–
Gain on sale of waste and spare parts	11,183	17,784
Gain on disposal of property, plant and equipment	676	–
Gain on disposal of non-current assets held for sale	11,487	–
Others	558	97
	67,522	97,654

Notes:

- i) Interest income included accrued interest income from immediate holding company of approximately RMB33,510,000 for the six months ended 30 June 2017 (six months ended 30 June 2018: nil).
- ii) 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 period as the Group fulfilled the relevant granting criteria.

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

For the six months ended 30 June 2018

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on:		
– bank loans	87,607	106,064
– corporate bonds	131,476	192,670
	<u>219,083</u>	<u>298,734</u>

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
– PRC Enterprises Income Tax (“EIT”)	161,840	209,943
Deferred tax	30,052	25,006
	<u>191,892</u>	<u>234,949</u>

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

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

For the six months ended 30 June 2018

8. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	569,440	628,703
Depreciation of investment properties	368	368
Amortisation of prepaid lease payments	4,420	4,420
Amortisation of other intangible assets	7	8
Impairment loss on trade receivables	462	–
Allowance for inventories	38,400	–
Reversal of impairment loss on trade receivables	–	(16)
Amount of inventories recognised as an expense	7,497,479	7,402,798
Exchange loss, net	–	17,070
Loss on disposal of property, plant and equipment	–	5,049
Operating leases rental relates to office premises	8,985	14,120

9. DIVIDEND

The proposed final dividend of RMB179,158,000 for the year ended 31 December 2017 was approved by the shareholders of the Company on 28 May 2018.

At the board meeting held on 17 August 2018, the directors of the Company did not recommend the payment of any interim dividend to the shareholders of the Company (six months ended 30 June 2017: nil).

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

For the six months ended 30 June 2018

10. 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:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	<u>302,524</u>	<u>299,495</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000 shares)	<u>1,194,389</u>	<u>1,194,389</u>

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

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group spent approximately RMB111,268,000 (six months ended 30 June 2017: approximately RMB102,825,000) on acquisition of property, plant and equipment.

During the six months ended 30 June 2018, the Group has disposed of certain property, plant and equipment with an aggregate carrying values of approximately RMB2,781,000 (six months ended 30 June 2017: approximately RMB6,721,000) for cash proceeds of approximately RMB3,457,000 (six months ended 30 June 2017: approximately RMB1,672,000), resulting in a gain on disposal of approximately RMB676,000 (six months ended 30 June 2017: loss on disposal of approximately RMB5,049,000).

Non-current assets classified as held for sale

At 30 June 2018, the non-current assets held for sale were certain items of machinery under sales agreements entered into in 2017 and expected to be sold in the second half of 2018.

At 31 December 2017, the non-current assets held for sale were certain items of machinery under sales agreements. These assets were sold during the six months ended 30 June 2018.

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

For the six months ended 30 June 2018

12. INVENTORIES

During the six months ended 30 June 2018, the Group reversed the inventory provision of approximately RMB3,753,000 and credited it to allowance for inventories due to increase of net realised value of inventories.

13. TRADE RECEIVABLES

	At 30 June 2018	At 31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	545,831	405,369
Less: allowance for doubtful debts	<u>(5,590)</u>	<u>(4,451)</u>
	<u>540,241</u>	<u>400,918</u>

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

	At 30 June 2018	At 31 December 2017
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	535,390	397,701
91 to 180 days	3,669	3,088
181 to 365 days	841	46
One to two years	290	83
Over two years	<u>51</u>	<u>–</u>
Total	<u>540,241</u>	<u>400,918</u>

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

For the six months ended 30 June 2018

13. TRADE RECEIVABLES (continued)

As part of the Group's credit risk management, the Group uses debtors aging to assess the impairment for its customers in relation to its textile products and electricity and steam operations because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate	Gross carrying amount RMB'000	Allowance for impairment RMB'000
Within 90 days	0.1%	535,924	534
91 to 180 days	10%	4,077	408
181 to 365 days	10%	934	93
One to two years	20%	363	73
Two to three years	50%	102	51
Over three years	100%	<u>4,431</u>	<u>4,431</u>
Total		<u>545,831</u>	<u>5,590</u>

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB427,000 impairment allowance based on the provision matrix.

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

For the six months ended 30 June 2018

14. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Prepayments to suppliers	69,506	18,971
Rental prepayments	2,469	–
Prepaid lease payments	8,839	8,839
Other taxes recoverable	221,201	269,552
Interest receivables	242	204
Other receivables	932	850
	<u>303,189</u>	<u>298,416</u>
Less: loss allowance of other receivables	<u>(540)</u>	<u>–</u>
	<u>302,649</u>	<u>298,416</u>
Analysis for reporting purposes as:		
– Non-current portion	2,084	–
– Current portion	300,565	298,416
	<u>302,649</u>	<u>298,416</u>

The Group measures the loss allowance of other receivables by using expected credit losses on the basis of estimated loss rates. The estimated loss rates are estimated based on historical observed default rates over the expected life of the counterparties and are adjusted for forward-looking information that is available without undue cost or effort. The estimated loss rates are regularly reviewed by the management of the Group to ensure relevant information about specific counterparties is updated.

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

For the six months ended 30 June 2018

15. TRADE PAYABLES

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

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within 90 days	645,970	873,820
91 to 180 days	32,514	48,411
181 to 365 days	15,254	16,943
Over 365 days	<u>27,876</u>	<u>29,046</u>
Total	<u>721,614</u>	<u>968,220</u>

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

16. OTHER PAYABLES AND ACCRUALS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Payroll payable	287,079	271,655
Accrued staff benefits	508,421	478,087
Receipt in advance	158,038	121,534
Other taxes payable	186,938	112,285
Interest payable	182,115	51,283
Other payables	<u>158,743</u>	<u>142,555</u>
	<u>1,481,334</u>	<u>1,177,399</u>

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

For the six months ended 30 June 2018

17. BANK AND OTHER BORROWINGS

Set out below is the information relating to the Group's interest-bearing bank and other borrowings as at 30 June 2018:

- a) As at 30 June 2018 and 31 December 2017, all Group's bank loans are denominated in RMB.
- b) As at 30 June 2018, certain of the Group's bank loans amounting to approximately RMB355 million (31 December 2017: RMB405 million) were secured by certain of the Group's buildings, machinery and equipment and prepaid lease payments of an aggregate carrying value of approximately RMB434 million and RMB59 million respectively (31 December 2017: RMB441 million and RMB59 million respectively).
- c) 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. As at 31 December 2017 and 30 June 2018, the outstanding amount of 2013 Bond was RMB3 billion and would be repayable in 2018.

On 7 November 2017, the bond holders of 2014 Bond, represented an aggregate amount of RMB2,037,245,000, has exercised the right of redemption. The Company has cancelled the register of redeemed bonds. The remaining outstanding balance would be repayable in 2019.

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

For the six months ended 30 June 2018

18. SHARE CAPITAL

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Registered, issued and fully paid:		
780,770,000 domestic ordinary shares of RMB1.00 each	780,770	780,770
413,619,000 H shares of RMB1.00 each	<u>413,619</u>	<u>413,619</u>
	<u>1,194,389</u>	<u>1,194,389</u>

19. 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:

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within one year	112,209	112,459
In the second to fifth years inclusive	<u>60,878</u>	<u>74,748</u>
	<u>173,807</u>	<u>187,207</u>

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

For the six months ended 30 June 2018

19. OPERATING LEASE COMMITMENT *(continued)*

The Group as lessor

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

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Within one year	<u>288</u>	<u>721</u>

20. CAPITAL COMMITMENTS

	At 30 June 2018 RMB'000 (Unaudited)	At 31 December 2017 RMB'000 (Audited)
Capital expenditure in respect of the acquisition of machinery contracted for but not provided in the consolidated financial statements	<u>13,393</u>	<u>75,437</u>

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

For the six months ended 30 June 2018

21. CHANGES IN OWNERSHIP INTEREST IN SUBSIDIARIES

During the six months ended 30 June 2017, the Group has the following changes in its ownership interest in subsidiaries that do not result in a loss of control.

Acquisition of additional interest in a subsidiary

In April 2017, the Group acquired an additional 15.31% issued shares of 山東魯藤紡織有限公司 Shantong Luteng Textile Company Limited* (“山東魯藤”), increasing its ownership interest to 85.19%. Cash consideration of approximately RMB6,880,000 was paid to the non-controlling shareholders. The carrying value of the net assets of 山東魯藤 was approximately RMB9,115,000.

In April 2017, the Group acquired an additional 19.92% issued shares of 山東濱藤紡織有限公司 Shantong Binteng Textile Company Limited* (“山東濱藤”), increasing its ownership interest to 100%. Cash consideration of approximately RMB1,376,000 was paid to the non-controlling shareholders. The carrying value of the net assets of 山東濱藤 was approximately RMB26,575,000.

A schedule of the effect of two acquisitions of additional interest is as follow:

	For the six months ended 30 June 2017
	RMB'000
	(Unaudited)
Carrying amounts of non-controlling interest acquired	35,690
Consideration paid for acquisition of additional interest in 山東魯藤 and 山東濱藤	<u>(8,256)</u>
Difference recognised in Capital reserves within equity	<u>27,434</u>

* For identification purpose

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

For the six months ended 30 June 2018

22. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

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

Related party	Nature of transaction	For the six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
The Holding Company	Sales of electricity	1,126,251	1,222,758
	Gross rental income	364	400
	Expenses on land use rights and property leasing	8,543	8,489
	Purchases of steam	–	3,376
	Repayment from immediate holding company	–	2,922,500
Fellow subsidiaries	Sales of textile products	211,316	211,750
濱州市宏諾新材料有限公司 Binzhou Municipal Hongnuo New Material Co., Limited* (Former name as 濱州市濱北新材料有限公司 Binzhou Municipal Binbei New Material Co., Limited*)	Purchases of steam	13,031	13,361
鄒平縣宏利熱電有限公司 Zouping County Hongli Thermal Power Co., Ltd*	Purchases of steam	2,516	–

* For identification purpose

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

For the six months ended 30 June 2018

22. RELATED PARTY TRANSACTIONS *(continued)*

(b) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements in note 22(a), the Group entered into sales agreements with certain fellow subsidiaries for sale commitments, which are expected to be fulfilled before the end of 2018.

(c) Compensation to key management personnel

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

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Short-term benefits	2,523	2,397
Post-employment benefits	77	58
	<u>2,600</u>	<u>2,455</u>