CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

Annual Report

2018

CONTENTS

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors
Mr. Zheng Hong *(Chairman)*
Mr. Zheng Yongxiang

Non-Executive Director
Mr. Sze Irons, BBS, JP

Independent Non-Executive Directors
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

BOARD COMMITTEES

Audit Committee
Ms. Zhang Baixiang *(Chairman)*
Mr. Ng Wing Ka JP
Mr. Xu Yiliang

Remuneration Committee
Mr. Ng Wing Ka JP *(Chairman)*
Ms. Zhang Baixiang
Mr. Zheng Hong
Mr. Xu Yiliang

Nomination Committee
Mr. Zheng Hong *(Chairman)*
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

COMPANY SECRETARY

Mr. Cheung Chi Fai Frank

AUTHORISED REPRESENTATIVES

Mr. Zheng Hong
Mr. Cheung Chi Fai Frank

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD QUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Fengtian Development Zone
Fengxin County
Jiangxi Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 806, 8/F, Capital Centre
151 Gloucester Road
Wanchai, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Luk and Partners
In Association with
Morgan, Lewis and Bockius

As to PRC law:
Jiangxi Kangtuo Law Offices

AUDITOR

RSM Hong Kong
Certified Public Accountants

INVESTORS RELATIONSHIP CONSULTANT

Anli Financial Communications Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
(Fengxin Sub-branch)
Bank of Beijing
(Nanchang Branch)
Bank of Communications Limited
(Nanchang Donghu Sub-branch)
Bank of Jiujiang
(Fengxin Sub-branch)
China CITIC Bank
(Nanchang Branch)
China Construction Bank Corporation
(Fengxin Sub-branch)
China Everbright Bank Co. Ltd.
(Fuzhou Nanmen Sub-branch)
Fengxin Rural Commercial Bank
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Industrial Bank Co. Ltd.
(Nanchang Branch)
Nanyang Commercial Bank (China) Limited
(Shenzhen Branch)
Shanghai Pudong Development Bank Co. Ltd.
(Nanchang Branch)
Sumitomo Mitsui Finance and Leasing (China) Co., Ltd.
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Chairman's Statement

In 2018, the United States (the "**US**") has achieved a GDP growth rate of around 3.0%, which was the highest growth rate since 2015. However, the GDP growth rate of the European Union (the "**EU**") countries was only around 1.9%. The GDP growth rate in the People's Republic of China (the "**PRC**") slightly decreased from a rate of 6.9% for 2017 to 6.6% for 2018. The PRC economy has slowed down after years of rapid growth. Instead of pursuing economic growth in quantitative terms, the PRC government is now keen on pursuing sustainable development and putting emphasis on stabilization of employment and financial systems.

An upward price trend of the basic raw materials for polyester related yarn products driven by oil related downstream products, the narrowing of price gap between domestic cotton prices and international cotton prices and the increase in internal consumption in the PRC domestic economy have contributed to favourable market conditions for the textile industry as a whole. However, the escalation of trade war between the US and the PRC has introduced great risk and uncertainty for exporters and general business. In Europe, brexit and political unrest in certain major European countries continued to hinder the economical recovery. The threat of trade war from the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. Both external and internal factors have introduced risk and uncertainties for the industry as a whole.

For the year ended 31 December 2018, the sales and production volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with its subsidiaries, (the "**Group**") was approximately 119,506 tonnes and 122,856 tonnes respectively; the revenue of the Group was approximately RMB1,836.2 million; the gross profit and the profit attributable to the owners of the Company were approximately RMB196.0 million and RMB80.3 million, respectively.

In 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group has put more emphasis on generating more sales from polyester-cotton blended yarn products with higher cotton contents, which were generally higher end products with better selling prices and margins. The Group also generated more sales from viscose related yarn products, further diversifying the product and customer mix of the Group. In addition to the introduction of viscose related yarn products, the Group has also introduced cotton-modal blended yarns products and polyester-acrylonitrile blended yarn products.

Looking forward, the sluggish overseas demand and fierce domestic and overseas competition and external uncertainties will continue to pose challenges to the textile industry in the PRC. The Group will continue to put more effort into new products development and increase its effort in developing markets for its new products. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its future. The Group believes it is well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work, our customers and suppliers, our shareholders and various government bodies for their trust and support.

Zheng Hong
Chairman
Hong Kong, 29 March 2019

Management Discussion and Analysis

MARKET OVERVIEW

In 2018, the US has achieved a GDP growth rate of around 3.0%, which was the highest growth rate since 2015. However, the GDP growth rate of the EU countries was only around 1.9%. The GDP growth rate in the PRC slightly decreased from a rate of 6.9% for 2017 to 6.6% for 2018. The PRC economy has slowed down after years of rapid growth. Instead of pursuing economic growth in quantitative terms, the PRC government is now keen on pursuing sustainable development 2017 and putting emphasis on stabilization of employment and financial systems.

In the first three quarters of 2018, the fundamental supply and demand in the global oil market was generally balanced, while the international crude oil price fluctuated with a general tendency to move upwards. Despite the significant drop in oil prices in the fourth quarter, the international average crude oil price of 2018 experienced a relatively significant rise as compared with the previous year. The upward trend of international crude oil price has pushed up the prices of oil related downstream products, including raw materials for polyester yarn products. Due to higher raw materials prices, selling prices of polyester related yarn products experienced a relatively significant rise in 2018 as compared with the previous year. Such upward rising trend has benefited the polyester related yarn products market.

In terms of textile raw materials, the international market witnessed greater fluctuations in cotton price in 2018. During the first half of the year, driven by several factors including strong global demand and the lower than expected cotton output by the US and India, the international cotton price increased significantly. Affected by the trade friction, the cotton price began to drop from the high level during the second half of the year. In the PRC, the government continued with the policy of direct subsidy to cotton farmers and has auctioned the national cotton reserve in an orderly manner. The domestic cotton prices in the PRC remained relatively stable in 2018. The price gap between international cotton prices and domestic cotton prices further narrowed in the second half of 2018 and this has created a better competitive environment for the domestic cotton yarn manufacturers with few or no import quotas.

An upward price trend of the basic raw materials for polyester related yarn products driven by oil related downstream products, the narrowing of price gap between domestic cotton prices and international cotton prices and the increase in internal consumption in the PRC domestic economy have contributed to favourable market conditions for the textile industry as a whole. However, the escalation of trade war between the US and the PRC in 2018 has introduced great risk and uncertainty for exporters and general business. Apart from an immediate damping effect on consumption and investment, the threat of trade war between the US and the PRC has forced US importers to diversify sourcing of goods which has serious implication for supply chain management. Consequently, manufacturers in the PRC are likely to accelerate the relocation of their manufacturing bases from the PRC to other Asian countries with better competitive advantages in terms of costs and tariff. In Europe, brexit and political unrest in certain major European countries continued to hinder the economical recovery. The threat of trade war from the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. Both external and internal factors have introduced risk and uncertainties for the industry as a whole.

Management Discussion and Analysis

BUSINESS REVIEW

The sales volume of yarn products of the Group was approximately 119,506 tonnes for the year ended 31 December 2018, which remained almost the same as approximately 120,197 tonnes for the year ended 31 December 2017. The production volume of yarn products of the Group increased by 2.6% from approximately 119,699 tonnes for the year ended 31 December 2017 to approximately 122,856 tonnes for the year ended 31 December 2018. The revenue of the Group increased by 16.0% to approximately RMB1,836.2 million for the year ended 31 December 2018 as compared to RMB1,582.6 million for the year ended 31 December 2017. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2018 were approximately RMB196.0 million and approximately RMB80.3 million, respectively.

In 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group has put more emphasis on generating more sales from polyester-cotton blended yarn products with higher cotton contents, which were generally higher end products with better selling prices and margins. The Group also generated more sales from viscose related yarn products, further diversifying the product and customer mix of the Group. In addition to the introduction of viscose related yarn products, the Group has also introduced cotton-modal blended yarns products and polyester-acrylonitrile blended yarn products. The Group is offering more than 100 types of yarns with different material mix and counts to satisfy the needs of different customers.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") has stepped up its commercial operation in 2018. Xinyuan is engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. Xinyuan's sales volume increased from approximately 14,821 tonnes for the year ended 31 December 2017 to approximately 20,000 tones for the year ended 31 December 2018 and production volume increased from approximately 16,558 tonnes for the year ended 31 December 2017 to approximately 18,000 tonnes for the year ended 31 December 2018.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2018 was approximately RMB1,836.2 million, representing an increase of approximately RMB253.6 million, or 16.0%, as compared to the year ended 31 December 2017. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2018 RMB'000		Year ended 31 December 2017 RMB'000	
Polyester yarn	**599,412**	**32.6%**	463,264	29.3%
Polyester-cotton and viscose-cotton blended yarns	**745,522**	**40.6%**	659,392	41.7%
Grey and deep grey melange and melange-cotton blended yarns	**215,486**	**11.7%**	232,035	14.6%
Viscose and stretchable core viscose yarns	**126,704**	**6.9%**	144,205	9.1%
Cotton yarns	**37,251**	**2.1%**	40,804	2.6%
Raw material	**111,786**	**6.1%**	42,858	2.7%
	1,836,161	**100.0%**	1,582,558	100.0%

Management Discussion and Analysis

The increase in the revenue of the Group for the year ended 31 December 2018 was mainly attributable to the increase in the overall average selling price of yarn products of the Group, which increased by approximately 12.6% from approximately RMB12,810 per tonne for the year ended 31 December 2017 to approximately RMB14,429 per tonne for the year ended 31 December 2018. The increase in the overall average selling price of yarn products of the Group was mainly due to i) the increase in average selling prices of mainstream polyester yarn products driven by the increase in the price of PSF, the raw material and ii) change in product mix of the Group as the Group enriched its product portfolio and generated more sales from polyester-cotton blended yarn products with higher cotton content, which generally deliver higher selling prices.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB142.5 million for the year ended 31 December 2017 to approximately RMB196.0 million for the year ended 31 December 2018. The gross profit margin of the Group increased from approximately 9.0% for the year ended 31 December 2017 to approximately 10.7% for the year ended 31 December 2018. The increase in gross profit was mainly due to the increase in sales revenue and gross profit margin. The increase in sales revenue was mainly due to the increase in the overall average selling price of yarn products of the Group. There was an increase in the selling prices of the yarn products of the Group driven by the increase in prices of raw material during the first ten months of 2018. The rate of increase in the overall average selling price of yarn products of the Group has been faster than that of the raw material and thus resulted in a better margin. Also, the Group has improved the product mix of its yarn products and generated more sales from polyester-cotton blended yarn products with higher cotton content which generally delivered a better margin.

Other Income

Other income of the Group increased from approximately RMB22.2 million for the year ended 31 December 2017 to approximately RMB31.2 million for the year ended 31 December 2018, representing an increase of approximately RMB9.0 million or 40.5%. The increase in other income was mainly due to an increase in government grants and income from scrap sales.

Other Gains and Losses

Other losses for the year ended 31 December 2018 was approximately RMB2.7 million while other gains for the year ended 31 December 2017 was approximately RMB22.1 million. Other losses in 2018 were mainly due to net foreign exchange loss of approximately RMB2.2 million and loss on disposal of plant and equipment of approximately RMB0.8 million. Other gains in 2017 were mainly due to gain on early redemption of convertible bond of approximately RMB32.6 million and net exchange gain of approximately RMB5.7 million. Those gains were partly offset by loss on impairment of goodwill of approximately RMB14.2 million.

Distribution and Selling Expenses

Distribution and selling expenses of the Group increased slightly from approximately RMB24.2 million for the year ended 31 December 2017 to approximately RMB25.8 million for the year ended 31 December 2018, representing an increase of 6.6% or approximately RMB1.6 million. The increase was mainly due to the change in destination mix of customers. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.4% for the year ended 31 December 2018 (year ended 31 December 2017: 1.5%).

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB49.9 million for the year ended 31 December 2017 to approximately RMB53.7 million for the year ended 31 December 2018, representing an increase of 7.6% or approximately RMB3.8 million. The increase was mainly due to increase in staff cost, including directors' remuneration. Administrative expenses as a percentage of revenue of the Group was approximately 2.9% for the year ended 31 December 2018 (year ended 31 December 2017: 3.2%).

Finance Costs

Finance costs of the Group decreased from approximately RMB55.8 million for the year ended 31 December 2017 to approximately RMB35.7 million for the year ended 31 December 2018, representing a decrease of 36.0% or approximately RMB20.1 million. The decrease in the Group's finance costs was mainly due to i) the decrease in interest on convertible bond and notes payable of approximately RMB19.0 million and RMB1.3 million respectively as a result of their early redemption in 2017 and ii) decrease in interest on outstanding consideration payable arising from the acquisition of a subsidiary in the PRC of approximately RMB4.1 million.

Income Tax Expense

The Group's effective income tax rate for the year ended 31 December 2018 was approximately 26.8%, as compared to 15.7% for the year ended 31 December 2017. The increase in the effective income tax rate of the Group was mainly due to an increase in the provision of deferred tax charge. The deferred tax charge of the Group increased from approximately RMB1.2 million for the year ended 31 December 2017 to approximately RMB20.0 million for the year ended 31 December 2018. The increase in deferred tax charge was mainly due to the recognition of deferred tax liabilities of approximately RMB24.3 million in respect of certain accelerated tax depreciation of the Group, which was partly offset by the recognition of deferred tax assets of approximately RMB5.9 million in relation to unused tax losses of the Group.

Profit Attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB80.3 million, representing an increase of approximately RMB30.0 million, or 59.6%, as compared to that for the year ended 31 December 2017. The net profit margin of the Group for the year ended 31 December 2018 was 4.4% as compared with 3.2% for the year ended 31 December 2017. The increase in the Group's net profit was mainly due to the increase in gross profit and other income of approximately RMB53.5 million and RMB9 million respectively and the decrease in finance cost of approximately RMB20.1 million. Such credits were partly offset by the decrease in other gains of approximately RMB24.8 million.

Earnings Per Share

The basic earnings per share of the Company increased from approximately RMB4.02 cents for the year ended 31 December 2017 to approximately RMB6.41 cents for the year ended 31 December 2018, representing an increase of approximately 59.5% or RMB2.39 cents. The diluted earnings per share of the Company increased from approximately RMB2.12 cents for the year ended 31 December 2017 to approximately RMB6.41 cents for the year ended 31 December 2018, representing an increase of approximately 3 times or RMB4.29 cents. The increase in basic earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2018. The increase in diluted earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2018 and the absence of dilution effect as the Company redeemed its outstanding convertible bond in 2017.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC and Hong Kong. During the year ended 31 December 2018, net cash inflow from operating activities of the Group amounted to approximately RMB278.9 million (year ended 31 December 2017: RMB52.0 million). The Group had cash and bank balances of approximately RMB47.5 million (31 December 2017: RMB57.8 million), pledged bank deposits of approximately RMB69.8 million (31 December 2017: RMB46.3 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2017: Nil) as at 31 December 2018. The Group's cash and bank balances were mainly held in Hong Kong Dollars, US Dollars and Renminbi ("**RMB**").

Capital Structure and Pledge on Assets

The Group's interest-bearing borrowings were made in RMB and Hong Kong dollars. As at 31 December 2018, the Group's interest-bearing borrowings amounted to approximately RMB465.2 million (31 December 2017: RMB530.9 million), RMB391.0 million (84.0%) of which (31 December 2017: RMB465.5 million (87.7%)) was repayable within one year. The Group's banking facilities were secured by its land use rights, properties, plant and equipment and pledged bank deposits with a carrying value of approximately RMB772.3 million in aggregate (31 December 2017: RMB767.2 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, finance leases payables, bills payable and entrusted loan payable to total assets, was approximately 41.0% as at 31 December 2018 (31 December 2017: 41.9%). Net current liabilities and net assets at 31 December 2018 was approximately RMB407.6 million (31 December 2017: RMB525.3 million) and approximately RMB621.5 million (31 December 2017: RMB541.5 million), respectively.

Foreign Exchange Exposure

As the Group conducts business transactions principally in RMB, the management considered the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the year ended 31 December 2018. The Group has foreign currency cash and bank balances, pledged bank deposit, trade and other receivables, bank borrowing, finance lease payables and other payables, which mainly expose the Group to risk in Hong Kong Dollars and US Dollars. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2018 were approximately RMB4.7 million (31 December 2017: RMB15.5 million) and RMB32.8 million (31 December 2017: RMB29.6 million), respectively.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 31 December 2018, the Group had a total of 3,196 employees (31 December 2017: 3,073). Remuneration for employees, including the directors of the Company (the "**Directors**"), is determined in accordance with performance, professional experiences and the prevailing market practices. The Group's management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company had adopted a share option scheme on 3 December 2011, under which the Company may grant options to eligible persons including Directors and employees. No share option has been granted pursuant to the scheme since its adoption.

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

During the year ended 31 December 2018, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

An upward price trend in the prices of the raw materials and the continuing increase in internal consumption in the domestic economy in the PRC contributed to favourable factors for the industry. However, unfavourable factors including impact of environment protection regulations, poor overseas demand, keen domestic and overseas competition and the potential of a full scale trade war have introduced risk and uncertainties into the industry.

In 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group is offering more than 100 types of yarns with different material mix and counts to satisfy the needs of different customers. The Group has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of polyester staple fibres. Xinyaun has stepped up its commercial operation in 2018.

Looking forward, unfavourable external and internal factors will continue to pose challenges to the textile industry in the PRC. However, the recent decision by the PRC government to substantially reduce taxes and levies will provide some relief to local businesses and it is likely that the US and the PRC will reach an agreement on trade deal. Accordingly, there are some grounds for optimism in the future. The Group will continue to put more effort into new products development and increase its effort in developing markets for its new products. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its future. The Group believes it is well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.

Report of the Directors

The Directors are pleased to present their report and the consolidated audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. Details of the principal activities of the principal subsidiaries of the Company are set out in Note 46 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group and the Company at that date are set out in the consolidated financial statements on pages 37 to 39 of this annual report and Note 44 to the consolidated financial statements.

BUSINESS REVIEW

Business Review and Future Development

Please refer to the "Chairman's Statement" and the "Business Review" and "Prospects" sections of the "Management Discussion and Analysis" of this annual report for details.

Principal Risks and Uncertainties

Please refer to the "Chairman's Statement", the "Market Overview" section of the "Management Discussion and Analysis", Note 2 and Note 6 to the consolidated financial statements of this annual report for details.

Events after the Reporting Period

The Company was unaware of any significant event since the end of the financial year that has a significant impact on the Group.

Business Analysis using Financial Key Performance Indicators

Please refer to the "Financial Review" section of the "Management Discussion and Analysis" of this annual report for details.

Compliance with Laws and Regulations

For the year ended 31 December 2018 and up to the date of this report, the Company was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Group.

Environmental Policies and Performance

The Group is committed to energy saving and environmental protection. The Group has complied with the relevant environmental rules and regulations and possesses all the required approval from the relevant Chinese regulators. The subsidiaries of the Company, Jinyuan Textile Co. Ltd. Jiangxi ("**Jiangxi Jinyuan**") and Jiangxi Huachun Color Spinning Technology Development Co., Ltd, ("**Huachun**"), have obtained the ISO 14001 certificate on environmental management. Jiangxi Jinyuan has over 25,000 square metres of green areas within its factory premises and it has constructed a reservoir to collect rain water for use in the workshop. Jiangxi Jinyuan and Huachun have installed solar panels on the workshop rooftop to provide electricity for workshop lighting. The environment, social and governance report as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") will be issued separately by the Company in due course.

Relationship with Employees

The Directors consider the Group has maintained a harmonious relationship with its employees.

Please refer to the "Employees, Remuneration and Share Option Scheme" section of the "Management Discussion and Analysis" of this annual report for details.

Relationship with Customers and Suppliers

The Group has a large customer base. As at 31 December 2018, the Group had over 2,200 customers. The Group does not rely on a few large customers. During the year ended 31 December 2018, sales to the Group's five largest customers accounted for 12.4% of the total sales of the Group for 2018 and sales to the largest customer included therein accounted for 4.7% of the total sales of the Group for the same year.

Due to the nature of the raw materials and large quantities required by the Group, there are not too many raw materials suppliers with sufficient scale that could cater for the requirement of the Group. As at 31 December 2018, the Group had over 50 major suppliers of raw materials, production equipment and production accessories. Purchases from the Group's five largest suppliers accounted for 49.5% of the total purchases of the Group for the year ended 31 December 2018 and purchases from the Group's largest supplier included therein accounted for 29.6% of the total purchases of the Group for the same year. The Directors consider the Group has maintained a harmonious business relationship with its suppliers.

The Group communicates regularly with its customers and suppliers and carries out reciprocal site visits to understand each other's requirements and collect market intelligence.

DIVIDEND

The Board has not recommended the payment of a dividend in respect of the year ended 31 December 2018.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years (including the year ended 31 December 2018) is set out on page 118 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 19 to the consolidated financial statements.

Report of the Directors

SHARE CAPITAL

Details of the Company's share capital are set out in Note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association adopted on 3 December 2011 and as amended from time to time (the "**Articles**") or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company (the "**Shareholders**").

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company (the "**Shares**") during the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB92.5 million.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2018, the Group did not make any charitable contribution.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2018, sales to the Group's five largest customers accounted for 12.4% of the total sales of the Group for 2018 and sales to the largest customer included therein amounted to 4.7% of the total sales of the Group for the same year.

Purchases from the Group's five largest suppliers accounted for 49.5% of the total purchases of the Group for the year ended 31 December 2018 and purchases from the Group's largest supplier included therein amounted to 29.6% of the total purchases of the Group for the same year.

None of the Directors or any of their associates or any substantial Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers at any time during the year.

Report of the Directors

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. Zheng Hong *(Chairman)*
Mr. Zheng Yongxiang

Non-Executive Director:
Mr. Sze Irons BBS, JP

Independent Non-Executive Directors:
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

Pursuant to Article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Article 84 of the Articles, all the Directors who retire at the forthcoming annual general meeting of the Company to be held on 5 June 2019 (the "**Annual General Meeting**"), being eligible, will offer themselves for re-election.

As such, Mr. Zheng Yongxiang and Mr. Sze Irons will retire from office as Directors at the Annual General Meeting and will offer themselves for re-election.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 30 to 32 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 3 December 2017 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Mr. Sze Irons BBS, JP, the non-executive Director, and Mr. Ng Wing Ka JP, an independent non-executive Director, have signed appointment letters with the Company for a term of three years commencing from 22 December 2017. Ms. Zhang Baixiang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 27 November 2017. Mr. Xu Yiliang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 20 October 2016. These appointments may be terminated by not less than one month's prior notice in writing served by the Company.

The details of the remuneration of each of the Directors are disclosed in Note 16 to the consolidated financial statements. No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. The Directors are subject to retirement by rotation at least once every three years as required by the Articles.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") under the provisions of Divisions 7 and 8 of Part XV of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), are set out below:

Name of Director	Nature of Interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Zheng Hong	Interest of a controlled corporation	Long position	514,305,000 Shares[1]	41.07%
Mr. Sze Irons BBS, JP	Interest of a controlled corporation	Long position	135,135,000 Shares[2]	10.79%
Mr. Zheng Yongxiang	Beneficial owner	Long position	48,125,200 Shares	3.84%

Notes:

(1) These Shares are held by Popular Trend Holdings Limited ("**Popular Trend**"), the entire issued share capital of which is owned by Mr. Zheng Hong.

(2) These Shares are held by Flourish Talent Group Limited ("**Flourish Talent**"), the entire issued share capital of which is owned by Mr. Sze Irons BBS, JP.

Save as disclosed above, as at 31 December 2018, none of the Directors (including their spouse and children under 18 years of age) had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Pursuant to a resolution of our Shareholders passed on 3 December 2011, the Company has adopted a share option scheme (the "**Scheme**"). The purpose of the Scheme is to recognise and acknowledge the contributions the eligible participants had or may have made to the Group. The Scheme became effective on 22 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from 22 December 2011. The remaining life of the Scheme is approximately 2.8 years as at the date of this report. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Eligible participants of the Scheme include any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The total number of Shares of the Company available for issue under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong and the conditional placing by the international underwriters of the international placing shares, being 100,000,000 Shares, representing approximately 7.98% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by our Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial shareholder of the Company (as defined under the Listing Rules), or to any of their respective associates (as defined under the Listing Rules), are required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates of the Company, (i) representing in aggregate over 0.1%, or such other percentage as may from time to time provided under the Listing Rules, of the Shares in issue on the date of grant; and (ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets at the date of each grant, are subject to issue of a circular and Shareholders' approval in general meeting by way of a poll.

The offer of a grant of share options may be accepted by a participant not later than 30 days after the date of offer, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

The subscription price for Shares under the Scheme shall be a price determined by the Board in its absolute discretion, save such price will not be less than the highest of:

i. the official closing price of the Shares as stated in the daily quotation sheets on the date of the offer of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

ii. the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

iii. the nominal value of a Share.

The exercise period for the share options granted is determined by the Board in its absolute discretion, which period may commence from the date of acceptance of the offer for the grant of share options but in any event shall not exceed 10 years from the date of grant.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until (but not including)_ 22 December 2021.

No option has been granted under the Scheme as at the date of this report.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE

Save as disclosed in the section headed "Share Option Scheme" above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, so far as is known to any Director or chief executive of the Company, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Popular Trend[1]	Beneficial owner	Long position	514,305,000 Shares	41.07%
Flourish Talent[2]	Beneficial owner	Long position	135,135,000 Shares	10.79%

Notes:

1. Popular Trend is wholly-owned by Mr. Zheng Hong.

2. Flourish Talent is wholly-owned by Mr. Sze Irons BBS, JP.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2018.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders, namely Popular Trend and Mr. Zheng Hong, has confirmed to the Company of his/its compliance with the non-compete undertakings that he/it provided to the Company on 3 December 2011. The independent non-executive Directors have reviewed the status of the compliance and confirmed that all of these non-compete undertakings have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018 and up to and including the date of this annual report.

PENSION SCHEME

The Group has established various welfare plans including the provision of basic pension funds, basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations and the existing policy requirements of the PRC and Hong Kong government.

CONNECTED TRANSACTIONS

Save as disclosed below, no connected transaction was entered into or in existence for the year ended 31 December 2018.

Exempt Connected Transactions

In 2018, certain unsecured loans ranging from RMB2,000,000 to RMB40,000,000 were borrowed from 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co., Limited ("**Jiangxi Baoyuan**")). These loans had no security over the assets of the Group, were interest-free and repayable on demand and fully settled during the year ended 31 December 2018. Jiangxi Baoyuan is considered as a connected party of the Company since its 80% equity interest is held by a close family member of the executive directors of the Company.

On 4 December 2018, the Group entered into a two-year entrusted loan agreement with a director – Mr. Zheng Yongxiang and a bank, pursuant to which Mr. Zheng Yongxiang provided a loan of RMB50,000,000 to the Group through this entrusted bank. The entrusted loan is unsecured and arranged at 6% fixed interest rate per annum. The principal amount is repayable on 19 October 2020. The amount of entrusted loan interest paid by the Group during the year ended 31 December 2018 was approximately RMB125,000.

The above mentioned financial assistances received by the Group from connected persons are fully exempt from Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.90 of the Listing Rules as such financial assistances are conducted on normal commercial terms or better; and these are not secured by the assets of the Group.

In 2018, the Group purchased raw materials of approximately RMB490,000 from Jiangxi Baoyuan. The transactions were de minimis transactions and fully exempt from Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76 of the Listing Rules.

Continuing Connected Transaction

On 7 July 2017, Xinyuan, an indirect subsidiary of the Company, entered into the Framework Supply Agreement with Jiangxi Baoyuan in relation to the supply of PSF by Xinyuan to Jiangxi Baoyuan (the "**Baoyuan Supply Agreement**"). Jiangxi Baoyuan is an associate of Mr. Zheng Yongxiang and Mr. Zheng Hong, both executive Directors, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Baoyuan Supply Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Baoyuan Supply Agreement was approved by independent Shareholders at an extraordinary general meeting of the Company held on 8 September 2017.

The Baoyuan Supply Agreement has a term commencing from 8 September 2017 to 30 June 2020 and the annual caps for the following periods, for the year ended 31 December 2017, from 1 January 2018 to 31 December 2018, from 1 January 2019 to 31 December 2019 and from 1 January 2020 to 30 June 2020, are RMB40,000,000, RMB85,000,000, RMB95,000,000 and RMB50,000,000, respectively. The sale of PSF from Xinyuan to Jiangxi Baoyuan for the year ended 31 December 2018 was approximately RMB20,257,000.

Pursuant to Rule14A.55 of the Listing Rules, the independent non-executive directors of the Company have reviewed the continuing connected transactions for the year ended 31 December 2018 and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable, and that appropriate internal control procedures are in place, and in the interests of the listed issuer's Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Listing Rules.

The above connected transactions are also related party transactions of the Group. Save as disclosed above, none of other related party transactions as set out in Note 41 to the consolidated financial statements constitute as non-exempt connected transactions or non-exempt continuing connected transactions of the Group in accordance with the Listing Rules during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public since the listing date of the Company up to the date of this report.

PERMITTED INDEMNITY PROVISION

The Articles provide that for the time being acting in relation to any of the affairs of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of duties of his office or otherwise in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, subsisted at the end of or at any time during the year ended 31 December 2018.

Report of the Directors

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 30 May 2019.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by RSM Hong Kong who shall retire at the forthcoming Annual General Meeting. A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint RSM Hong Kong as auditor of the Company.

On behalf of the Board
Zheng Hong
Chairman
Hong Kong, 29 March 2019

Corporate Governance Report

The Board hereby presents this Corporate Governance Report for the year ended 31 December 2018.

A. CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2018, the Company had complied with the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

In respect of code provision C2.5 of the CG Code, the Company has not set up an internal audit ("**IA**") function. The Company has considered the size and complexity of the operations of the Group and the potential cost involved in setting up an IA function. The Company considers that the existing organisation structure and the close supervision of the executive management could provide sufficient internal control and risk management for the Group. The Audit Committee under the Board will review the effectiveness of the internal control and risk management of the Group. The Board will conduct a review for the need of an IA function on an annual basis.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct governing the Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, each of them has complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

C. BOARD OF DIRECTORS

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Board Composition

The Board currently comprises two executive Directors, one non-executive Director and three independent non-executive Directors. The Board has received from each independent non-executive Director a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and is satisfied with the independence of the independent non-executive Directors. Under the Articles, every Director is subject to retirement by rotation at least once every three years and their re-election is subject to a vote by the Shareholders. All independent non-executive Directors are appointed for a specific term.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's business is delegated to the senior management. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic and financial policies including dividend policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfill their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

Corporate Governance Report

The Board has three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Ms. Zhang Baixiang, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board in compliance with Rule 3.10A of the Listing Rules.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 3 December 2017 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Mr. Sze Irons JP, BBS, the non-executive Director, and Mr. Ng Wing Ka JP, an independent non-executive Director, have signed appointment letters with the Company for a term of three years commencing from 22 December 2017. Ms. Zhang Baixiang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 27 November 2017. Mr. Xu Yiliang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 20 October 2016. These appointments may be terminated by not less than one month's prior notice in writing served by the Company.

The Board comprises the following Directors:

Executive Directors:
Mr. Zheng Hong *(Chairman)*
Mr. Zheng Yongxiang

Non-Executive Director:
Mr. Sze Irons BBS, JP

Independent Non-Executive Directors:
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

Chairman and Chief Executive Officer

The Company has appointed Mr. Zheng Hong as the Chairman and Mr. Zheng Yongxiang has assumed the role of the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

Mr. Zheng Hong is the younger brother of Mr. Zheng Yongxiang. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

Meeting Attendance

The attendance of individual members of the Board at Board meetings, meetings of the Board committees and general meetings during the year ended 31 December 2018, as well as the number of such meetings held, are set out as follows:

	Meetings attended/held				
	Board	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting
Number of meetings	5	1	1	2	1
Executive Directors:					
Mr. Zheng Hong	5/5	1/1	1/1	–	1/1
Mr. Zheng Yongxiang	5/5	–	–	–	1/1
Non-Executive Director:					
Mr. Sze Irons BBS, JP	5/5	–	–	–	1/1
Independent Non-Executive Directors:					
Mr. Ng Wing Ka JP	4/5	1/1	1/1	1/2	1/1
Ms. Zhang Baixiang	5/5	1/1	1/1	2/2	1/1
Mr. Xu Yiliang	5/5	1/1	1/1	2/2	1/1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the executive Director during the year.

Board Committees

The Board has established the remuneration committee, nomination committee and audit committee (collectively, "**Board Committees**") with defined terms of reference. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

A remuneration committee was established by the Company on 3 December 2011 (the "**Remuneration Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to our Directors and members of senior management of our Group. Mr. Ng Wing Ka JP, an independent non-executive Director, is the chairman of the Remuneration Committee. The other members are Ms. Zhang Baixiang and Mr. Xu Yiliang, who are also independent non-executive Directors, and Mr. Zheng Hong, an executive Director.

During the year ended 31 December 2018, one meeting was held by the Remuneration Committee. The Remuneration Committee reviewed and approved the remuneration packages, including discretionary bonus of the executive Directors.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2018 is set out below:

Remuneration Bands (HK$)	Number of persons
Nil to 1,000,000	3

Further particulars regarding the five highest paid employees and the Directors' remuneration as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Notes 15 and 16 to the consolidated financial statements.

Nomination Committee

A nomination committee was established by the Company on 3 December 2011 (the "**Nomination Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and members of senior management of our Group. The members of the Nomination Committee comprises the three independent non-executive Directors, namely, Mr. Ng Wing Ka JP, Ms. Zhang Baixiang and Mr. Xu Yiliang and one executive Director, Mr. Zheng Hong. Mr. Zheng Hong is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

During the year ended 31 December 2018, one meeting was held by the Nomination Committee. The Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of all the independent non-executive Directors.

Audit Committee

An audit committee was established by the Company on 3 December 2011 (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and approve our Group's financial reporting process, risk management and internal control systems. The Audit Committee comprises all the independent non-executive Directors, namely, Ms. Zhang Baixiang, Mr. Ng Wing Ka JP and Mr. Xu Yiliang. Ms. Zhang Baixiang is the chairman of the Audit Committee.

During the year ended 31 December 2018, the Audit Committee had two meetings and performed the following work:

- Review of the annual financial results for the year ended 31 December 2017 and interim financial results for the six months ended 30 June 2018 and review of the accounting principles and practices adopted by the Group;
- Meeting and discussion with the external auditor on matters arising from the annual audit of the financial statements of the Group;
- Review of report prepared by the external auditor on matters in relation to the annual audit of the financial statements of the Group;
- Review and discussion with the external auditor on the internal control systems of the Group;
- Review the independence of RSM Hong Kong.

The Group's audited consolidated results for the year ended 31 December 2018 had been reviewed by the Audit Committee.

Training for Directors

During the year ended 31 December 2018, the Directors participated in the following trainings:

	Type of training
Executive Directors:	
Mr. Zheng Hong	A, C
Mr. Zheng Yongxiang	A, C
Non-Executive Director:	
Mr. Sze Irons BBS, JP	C
Independent Non-Executive Directors:	
Mr. Ng Wing Ka JP	B, C
Ms. Zhang Baixiang	C
Mr. Xu Yiliang	C

A: attending in house training sessions.

B: attending training sessions required by the relevant professional bodies of which he is a member.

C: reading newspapers, journals and updates distributed by the Group relating to economy, general business and regulatory matter.

Company Secretary

Mr. Cheung Chi Fai, Frank, the company secretary of the Company (the "**Company Secretary**"), is a full time employee of the Group. During the year ended 31 December 2018, Mr. Cheung has complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

Board Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy on 23 August 2013. The Company recognises and embraces the benefits of diversity of its Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The Board will consider setting measurable objectives for achieving diversity on the Board at appropriate time.

Dividend Policy

The Company has adopted a dividend policy (the "**Dividend Policy**"). Under the Dividend Policy, in proposing dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and strike a balance between future growth and rewarding the Shareholders. The Company does not have any pre-determined payout ratio. The Board shall consider the following factors in proposing dividends: financial results and positions; cash flow position; gearing ratio, credit facilities and indebtedness level; business conditions and strategies; future operations and income; capital requirements and budgets; interests of the Shareholders; any restrictions on payment of dividends; and any other factor that the Board deems relevant. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

D. FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with appropriate International Financial Reporting Standards. Appropriate accounting policies are being selected and applied consistently.

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2018, the Group had net current liabilities of approximately RMB407,634,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the Directors have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

(a) The banking facilities from the Group's bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:

(i) Up to the date of the consolidated financial statements authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB114,600,000 currently included in current liabilities at 31 December 2018.

(ii) Undrawn banking facilities amounting to approximately RMB24,592,000.

(iii) Subsequent to the date of the reporting period, the Group has also successfully obtained new banking facilities of approximately RMB82,500,000.

(iv) Certain existing prepaid land lease and property, plant and equipment can be offered as security for further financing.

(b) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the Directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

The responsibilities of the external auditor with respect to the audit of the consolidated financial statements are set out in the Independent Auditor's Report on pages 33 to 36.

Auditor's Remuneration

During the year ended 31 December 2018, the Group has incurred auditor's remuneration in respect of audit and non-audit services of approximately RMB887,000 and RMB257,000, respectively, which was paid or payable to the Company's auditor, RSM Hong Kong.

Risk Management and Internal Control

The Group's risk management and internal control systems are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The systems are implemented to minimise risks to which the Group is exposed and can provide reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board acknowledges that it is responsible for maintaining adequate systems of risk management and internal control for the Group and the Directors had conducted its annual review of their effectiveness during the year through the Audit Committee. Such review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and that no significant areas of improvement which are required to be brought to the attention of the Audit Committee have been revealed. The Board considers the risk management and internal control systems effective and adequate.

E. COMMUNICATIONS WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHT

The Board recognises the importance of effective communication with the Shareholders and investors. The Company communicates with the Shareholders and investors through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details of proposed resolutions to be sent to the Shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

The Board always ensures that Shareholders' and investors' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. The Company's website provides email address and telephone number to enable the Shareholders to make any enquiries and concerns to the Board. Shareholders and investors may also at any time send their enquiries and concerns to the Board by addressing to the Company Secretary by post or by email. The contact details are set out in the "Corporate Information" section of this annual report.

Procedures for Shareholders to Convene an Extraordinary General Meeting and to put forward Proposals at General Meetings

Pursuant to Article 58 of the Articles, any one or more Members (as defined therein) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

Pursuant to Article 85 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2018.

Directors and Senior Management

EXECUTIVE DIRECTORS

Zheng Hong (鄭洪), aged 43, was appointed as the chairman of our Company and an executive Director on 4 May 2011. Mr. Zheng Hong has over 18 years of experience in the textile industry. He is one of the founders of our Group and was a director of Jiangxi Jinyuan, a subsidiary of the Group, from 2005 to 2017. He is the vice president (副會長) of the Chinese Cotton and Textile Industry Association (中國棉紡織行業協會), the vice supervisor (副主任) of the cotton trading committee of the Chinese Cotton and Textile Industry Association (中國棉紡織行業協會棉花貿易專業委員會) and a committee member of the Chinese Textile Products Technical Committee (中國棉紡織品技術委員會). Mr. Zheng Hong was awarded as the China Textile Outstanding Labour (全國紡織工業勞動模範) in 2010. He was elected as one of the Top Ten Outstanding Young Entrepreneurs of the Textile Industry in China (全國棉紡織產業十大傑出青年企業家) and the National Outstanding Young Textile Entrepreneur (全國優秀紡織青年企業家) in 2014 and 2017 respectively. He was awarded an MBA degree by Fudan University (復旦大學) in 2014 and completed the Commercial Enterprises Information Strategy and Knowledge Management CEO Advanced Programme (工商企業信息戰略與知識管理總裁高級研修班) at Tsinghua University (清華大學) in 2005. Mr. Zheng Hong is the younger brother of Mr. Zheng Yongxiang, an executive Director of the Company.

Zheng Yongxiang (鄭永祥), aged 50, was appointed as an executive Director on 4 May 2011. Mr. Zheng Yongxiang has over 17 years of experience in the textile industry. He joined Jiangxi Jinyuan in 2005 as a general manager and is primarily responsible for formulating the policy and monitoring the operation of the Group. Prior to joining Jiangxi Jinyuan, Mr. Zheng Yongxiang served as the general manager of Shaoxing Gangtai Weaving Company Limited (紹興港泰針紡有限公司) from 2001 to 2005. He received the award of Outstanding Entrepreneur in 2007 (2007年度優秀企業家) from the Yichun Municipal Peoples' Government in 2008 and was awarded the Outstanding Architects of Yichun in the Reforming and Open Up for 30 Years (改革開放30年宜春市優秀建設者) in 2008 and the Best Ten Yichun Citizen (十佳宜春人) in 2009. He was the Chairman of Federation of Industry and Commerce of Fengxin County, Jiangxi Province (江西省奉新縣工商業聯合會) from 2012 to 2015. Mr. Zheng Yongxiang is a representative of Jiangi Fengxin County People's Congress (江西省奉新縣人民代表大會). Mr. Zheng Yongxiang graduated from the Open University of China (中央廣播電視大學) with a diploma of accounting (finance and accounting) in 2010. Mr. Zheng Yongxiang is the elder brother of Mr. Zheng Hong, the chairman and an executive Director of the Company.

NON-EXECUTIVE DIRECTOR

Sze Irons BBS, JP (施榮懷), aged 57, was appointed as a non-executive Director on 4 May 2011. He is one of the founders of our Group and was a director of Jiangxi Jinyuan from 2005 to 2012. Mr. Sze has extensive experience in investment and corporate management and is currently an independent non-executive director of Continental Holdings Limited (stock code: 513), Chevalier International Holdings Limited (stock code: 25), ST International Holdings Company Limited (stock code: 8521) and Best Mark 360 Holdings Limited (stock code 2360), which are listed in Hong Kong. He is also an executive director of a private company, Hang Tung Resources Holding Limited, and holds directorship in various private companies. Mr. Sze is vice supervisor of the Committee of Human Resources and Environment of the National Committee (全國政協－人口資源環境委員會副主任) and an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference (北京市政協常委), and is currently the Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Mr. Sze was appointed as a Justice of the Peace and was awarded the Bronze Bauhinia Star by the Government of Hong Kong Special Administrative Region in 2011 and 2015 respectively. He is also a member of the Election Committee of the Chief Executive of the Hong Kong Special Administrative Region. Mr. Sze graduated with a bachelor's degree in science from the University of Wisconsin-La Crosse, United States in 1985.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ng Wing Ka JP (吳永嘉), aged 49, was appointed as an independent non-executive Director on 3 December 2011. He is the partner of Tung, Ng, Tse & Lam Solicitors. He is a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. Since 2005, Mr. Ng has been the independent non-executive director of Yanchang Petroleum International Limited (stock code: 346), a company listed in Hong Kong. Mr. Ng was appointed as a Justice of the Peace by the Government of Hong Kong Special Administrative Region in July 2015. He is currently a member of the Legislative Council in Hong Kong. Mr. Ng graduated with a bachelor's degree in laws and a postgraduate certificate in laws from the University of Hong Kong in 1991 and 1992, respectively. He was admitted as a solicitor of the High Court of Hong Kong in September 1994.

Zhang Baixiang (張百香), aged 58, was appointed as an independent non-executive Director on 27 November 2014. Ms. Zhang has over 32 years of experience in corporate accounting and taxation. Ms. Zhang has been a corporate accountant in the PRC since 1993 and a PRC tax advisor since 1995. Ms. Zhang held various positions in the National Tax Bureau of the Fengxin County, Jiangxi Province (江西省奉新縣國稅局) including Accountant, Taxation Accountant and Chief Officer from 1982 to 2010. Ms. Zhang graduated with a diploma with specialization in taxation from the Cadres'Academy of Finance and Management in Jiangxi (江西財經管理幹部學院) in 1987 and with a degree in Economic Management from the Distance Learning Academy of the Central Parties' School (中央黨校函授學院) in 2013.

Xu Yiliang (許貽良), aged 58, was appointed as an independent non-executive Director on 20 October 2016. Mr. Xu has over 37 years of experience in banking and finance. Mr. Xu has held various positions in the Fengxin County Branch of the People's Bank of China and various sales and management positions in the Industrial and Commercial Bank of China Limited, including Credit Analyst, Vice Section Head, Section Head, Vice President and President of the Fengxin County and Jingan County Branch and Credit Centre Supervisor of the Yichun City Branch from 1982 to 2016. Mr. Xu graduated with a diploma from the Academy of Banking in Jiangxi (江西省銀行學校) in 1982, a professional diploma from the City Finance School of the Staff University of the People's Bank of China in Jiangxi (江西省人民銀行職工大學) in 1987 and a degree in Economic Management from the Distance Learning Academy of the Central Parties' School (中央黨校函授學院) in 2001. He also obtained the qualifications of Senior Economist (高級經濟師) in 2012.

Directors and Senior Management

SENIOR MANAGEMENT

Liu Weimin (劉偉民), aged 49, is a deputy general manager of Jiangxi Jinyuan. Mr. Liu joined our Group in 2005 and is responsible for production technology management. He has over 28 years of experience in the textile industry. Prior to joining Jiangxi Jinyuan, Mr. Liu served as the head of production department in Fujian Mawei Development Zone Chuanlong Textile Company Limited (福建省馬尾開發區川隆紡織有限公司) from 1990 to 1993. From 1993 to 1995, he served as the head of production department of Fujian Jingwei Group Company Limited (福建經緯集團有限公司). From 1995 to 2004, he served as the factory manager and chief engineer of Jinjiang Fuxin Textile Company Limited (晉江福鑫紡織有限公司). Mr. Liu completed the internal auditor training in 2011 provided by Nan Chang Sino Enterprise Management Consulting Centre according to the ISO 9001: 2008 and GB/T24001–2004 (ISO14001:2004) Standard.

Chen Yu Han (陳宇含), aged 36, is a deputy general manager of Jiangxi Jinyuan. Mr. Chen joined Jiangxi Jinyuan in 2005 and is responsible for sales and management. He has over 13 years of experience in the textile industry. Mr. Chen graduated from the Jimei University (集美大學) in 2005 with a bachelor's degree in business management.

Cheung Chi Fai Frank (張志輝), aged 56, was appointed as the Company Secretary and chief financial officer of our Company in May 2011. He is also an independent non-executive director of Continental Holdings Limited (stock code: 513), a company listed in Hong Kong. He has over 27 years experience in accounting, finance and business management. He obtained an MBA from the University of Technology, Sydney in 1995 and a professional diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1985. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was an independent non-executive director of K.H. Group Holdings Limited (stock code: 1557), a company listed in Hong Kong from March 2016 to August 2018. He was a part-time tutor at the Open University of Hong Kong from March 2009 to July 2011. He was an executive director of Sun Innovation Holdings Limited (stock code: 547), a company listed in Hong Kong from 2004 to 2007. He also acted as the chief financial officer of Sun Innovation Holdings Limited from 2007 to 2008. He was an independent director of LJ International Inc. (NASDAQ: JADE) from June to October 2007, a director of e-Lux (Hong Kong) Company Limited, a subsidiary of e-Lux Corporation (JASDAQ: 6811) from 2001 to 2003, in charge of the telecommunications value added services in Hong Kong, Taiwan and the PRC. He was the group financial controller and a director of New Media Corporation, a subsidiary of e-New Media Company Limited (stock code: 128), a company listed in Hong Kong from 1995 to 1999 and 1999 to 2000, respectively.

Independent Auditor's Report

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TO THE SHAREHOLDERS OF
CHINA WEAVING MATERIALS HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Weaving Materials Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 37 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") 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 Hong Kong Institute of Certified Public Accountants (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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB407,634,000 as at 31 December 2018. As stated in Note 2, this event or condition indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, the key audit matter we identified is impairment assessment of goodwill:

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill *Refer to Note 22 to the consolidated financial statements* As at 31 December 2018, included in the Group's consolidated statement of financial position was goodwill with carrying amount of approximately RMB20,617,000 arising from the acquisition of 江西華春色紡科技發展有限公司 (for identification purpose, Jiangxi Huachun Color Spinning Technology Development Co., Ltd.). Management is required to undertake goodwill impairment review at least annually. The recoverable amount of the cash-generating unit ("**CGU**") to which the goodwill is allocated is based on the value in use of the CGU. Management has engaged an independent external valuer to assist in the determination of the value in use of the CGU. The impairment assessment is a judgemental process, requiring estimates in respect of the forecast future cash flows associated with the CGU, including the growth rate for revenues and costs, and the discount rate. An impairment loss on goodwill of approximately RMB14,212,000 was recorded in the year 2017 to reduce the CGU carrying amount to its recoverable amount. No impairment loss on goodwill was recorded in the current year as the CGU recoverable amount exceeded its carrying amount.	Our procedures in relation to this matter included: – Evaluating the expertise and independence of the external valuer; – Challenging the reasonableness of the assumptions underlying the cash flow forecasts in the valuation model, with reference to the historical performance of the CGU and our understanding of the business; – Working with our in-house valuation specialists to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model, and the reasonableness of the components comprising the discount rate compared to market data; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

OTHER INFORMATION

The directors are responsible for the Other Information. The Other Information comprises all of the information included in the annual report of the Company other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee assists the directors in discharging their responsibilities 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. We report our opinion solely to you, as a body, 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 the 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 judgement 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.

- Conclude on the appropriateness of the 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 the 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 the 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 the 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 Lee Yuk Fung Cora.

RSM Hong Kong
Certified Public Accountants
Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Revenue	9	**1,836,161**	1,582,558
Cost of sales		**(1,640,190)**	(1,440,088)
Gross profit		**195,971**	142,470
Other income	10	**31,231**	22,227
Other gains and losses	11	**(2,723)**	22,129
Distribution and selling expenses		**(25,752)**	(24,245)
Administrative expenses		**(53,711)**	(49,948)
Finance costs	12	**(35,665)**	(55,774)
Profit before tax		**109,351**	56,859
Income tax expense	13	**(29,319)**	(8,914)
Profit and total comprehensive income for the year	14	**80,032**	47,945
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**80,309**	50,293
Non-controlling interests		**(277)**	(2,348)
		80,032	47,945
Earnings per share	18		
– Basic		**RMB6.41 cents**	RMB4.02 cents
– Diluted		**RMB6.41 cents**	RMB2.12 cents

Consolidated Statement of Financial Position

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	19	**1,082,457**	1,092,147
Prepaid lease payments	20	**42,364**	43,279
Intangible asset	21	**–**	17
Deposits on acquisition of property, plant and equipment		**2,760**	1,163
Goodwill	22	**20,617**	20,617
		1,148,198	1,157,223
Current assets			
Inventories	23	**249,100**	244,793
Trade and other receivables	24	**31,724**	34,123
Bills receivable	25	**8,800**	21,834
Prepaid lease payments	20	**1,079**	1,075
Pledged bank deposits	26	**69,791**	46,276
Restricted bank deposit	26	**500**	–
Cash and bank balances	26	**47,548**	57,796
		408,542	405,897
Current liabilities			
Trade and other payables	27	**214,477**	335,203
Contract liabilities	28	**28,017**	–
Bills payable	29	**173,780**	121,824
Deferred income	30	**227**	227
Finance lease payables	31	**25,064**	2,875
Bank borrowings	32	**365,923**	462,649
Current tax liabilities		**8,688**	8,462
		816,176	931,240
Net current liabilities		**(407,634)**	(525,343)
Total assets less current liabilities		**740,564**	631,880

Consolidated Statement of Financial Position (Continued)

At 31 December 2018

	Note	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred income	30	**7,483**	7,710
Bank borrowings	32	**24,176**	65,340
Entrusted loan payable	33	**50,000**	–
Deferred tax liabilities	34	**37,384**	17,341
		119,043	90,391
Net assets		**621,521**	541,489
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	35	**101,989**	101,989
Reserves		**490,170**	409,861
		592,159	511,850
Non-controlling interests		**29,362**	29,639
Total equity		**621,521**	541,489

Approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Zheng Hong
DIRECTOR

Zheng Yongxiang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000 (Note 45(b)(i))	PRC statutory reserves RMB'000 (Note 45(b)(ii))	Special reserve RMB'000 (Note 45(b)(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At l January 2017	101,989	73,903	78,049	148,739	58,877	461,557	31,987	493,544
Profit/(Loss) and total comprehensive income for the year	–	–	–	–	50,293	50,293	(2,348)	47,945
Transfer	–	–	8,285	–	(8,285)	–	–	–
At 31 December 2017 and at 1 January 2018	101,989	73,903	86,334	148,739	100,885	511,850	29,639	541,489
Profit/(Loss) and total comprehensive income for the year	–	–	–	–	80,309	80,309	(277)	80,032
Transfer	–	–	10,779	–	(10,779)	–	–	–
At 31 December 2018	**101,989**	**73,903**	**97,113**	**148,739**	**170,415**	**592,159**	**29,362**	**621,521**

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**109,351**	56,859
Adjustments for:		
Amortisation of deferred income	**(227)**	(227)
Amortisation of prepaid lease payments	**1,077**	1,083
Amortisation of intangible asset	**17**	50
Depreciation of property, plant and equipment	**60,879**	58,494
Loss on disposal of property, plant and equipment	**769**	537
Impairment loss on goodwill	**–**	14,212
Interest income	**(959)**	(1,118)
Fair value gain on derivative component of convertible bond	**–**	(50,853)
Interest expenses	**35,202**	55,651
Loss on redemption of note instruments	**–**	210
Loss on redemption of convertible bond	**–**	18,280
Finance lease charges	**463**	123
Net foreign exchange loss/(gain)	**1,616**	(5,968)
Operating cash flows before movements in working capital	**208,188**	147,333
Increase in inventories	**(4,307)**	(107,640)
Decrease in trade and other receivables	**2,399**	19,474
Decrease/(Increase) in bills receivable	**13,034**	(9,220)
Increase/(Decrease) in trade and other payables	**4,874**	(15,594)
Increase in contract liabilities	**28,017**	–
Increase in bills payable	**71,380**	69,676
Cash generated from operations	**323,585**	104,029
Finance lease charges paid	**(463)**	(124)
Interest paid	**(35,202)**	(42,373)
Income tax paid, net	**(9,050)**	(9,522)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**278,870**	52,010
CASH FLOWS FROM INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(154,845)**	(79,488)
Withdrawal of pledged bank deposits	**131,330**	94,615
Interest received	**959**	1,118
Additions of prepaid lease payments	**(166)**	–
Purchase of property, plant and equipment	**(48,244)**	(44,683)
Proceeds from disposal of property, plant and equipment	**1,982**	134
Deposits paid for acquisition of property, plant and equipment	**(2,760)**	(1,163)
Interest paid for consideration payable for the acquisition of a subsidiary	**(3,600)**	(8,009)
Repayment of consideration payable for the acquisition of a subsidiary	**–**	(44,000)
NET CASH USED IN INVESTING ACTIVITIES	**(75,344)**	(81,476)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from related companies	**139,000**	122,000
Repayment to related companies	**(261,000)**	–
Proceeds from bank borrowings	**370,250**	596,435
Repayment of bank borrowings	**(508,496)**	(586,723)
Proceed from entrusted loan	**50,000**	–
Redemption of convertible bond	**–**	(93,115)
Redemption of note instruments	**–**	(44,293)
Repayment of finance lease payables	**(3,028)**	(985)
(Increase)/Decrease in restricted bank deposit	**(500)**	500
NET CASH USED IN FINANCING ACTIVITIES	**(213,774)**	(6,181)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(10,248)**	(35,647)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**57,796**	93,443
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**47,548**	57,796
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**47,548**	57,796

1. GENERAL INFORMATION

China Weaving Materials Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 4 May 2011 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 22 December 2011. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Fengtian Economic Development Zone of Fengxin County, Yichun City, Jiangxi Province, the People's Republic of China ("**PRC**").

The Company together with its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the business of manufacturing and trading of yarn products and related raw materials.

These consolidated financial statements for the year ended 31 December 2018 are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). IFRSs comprise individual International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2018, the Group had net current liabilities of approximately RMB407,634,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

(a) The banking facilities from the Group's bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:

(i) Up to the date of the consolidated financial statements authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB114,600,000 currently included in current liabilities at 31 December 2018.

(ii) Undrawn banking facilities amounting to approximately RMB24,592,000.

(iii) Subsequent to the date of the reporting period, the Group has also successfully obtained new banking facilities of approximately RMB82,500,000.

(iv) Certain existing prepaid land lease and property, plant and equipment can be offered as security for further financing.

(b) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND REVISED IFRSs

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts 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 IAS 39.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through other comprehensive income ("**FVTOCI**") or at fair value through profit or loss ("**FVTPL**"), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(i) Classification (Continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

(ii) Measurement

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains and losses, together with foreign exchange gain and loss. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income.

- FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gain and loss which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and recognised in other gains and losses. Interest income from these financial assets is included in other income using the effective interest rate method. Foreign exchange gain and loss are presented in other gains and losses and impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(ii) Measurement (Continued)

- FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains and losses in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains and losses in profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses ("**ECL**") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group has not recognised loss allowance upon the initial recognition of IFRS 9 as the amount involved is insignificant.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 9 Financial Instruments (Continued)

(iii) Impairment (Continued)

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets at 1 January 2018.

Financial assets	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Trade and other receivables		Loans and receivables	Amortised cost	13,199	13,199
Bills receivable (Note)	25	Loans and receivables	FVTPL	21,834	21,834
Pledged bank deposits	26	Loans and receivables	Amortised cost	46,276	46,276
Cash and bank balances	26	Loans and receivables	Amortised cost	57,796	57,796

Note: The Group's bills receivable are managed with a business model under which bills receivables are not held to collect contractual cash flows but endorsed to suppliers prior to their expiry date. Accordingly, these bills receivables are reclassified as FVTPL upon the adoption of IFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

The Group did not designate or de-recognise any financial assets or financial liabilities at FVTPL at 1 January 2018.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 15 Revenue from Contacts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 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.

The adoption of IFRS 15 resulted in the following changes to the Group's accounting policies.

The Group manufactures and sells yarn products and related raw materials in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods. There is no significant impact of transition to IFRS 15 on retained profits at 1 January 2018.

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. To reflect this change in presentation, deposits from customers of approximately RMB13,092,000 previously included in trade and other payables were reclassified to contract liabilities at 1 January 2018 upon application of IFRS 15.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 15 Revenue from Contacts with Customers (Continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS15 at 1 January 2018 RMB'000
Current liabilities			
Trade and other payables	335,203	(13,092)	**322,111**
Contract liabilities	–	13,092	**13,092**

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position at 31 December 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position at 31 December 2018:

	As reported RMB'000	Adjustments RMB'000	Amounts without application of IFRS 15 RMB'000
Current liabilities			
Trade and other payables	214,477	28,017	242,494
Contract liabilities	28,017	(28,017)	–

IFRS 15 requires an entity to adjust the transaction price for the effects of the time value of money if the timing of payments agreed to by the parties to the contract (either explicitly or implicitly) provides the customer or the entity with a significant benefit of financing the transfer of goods to the customer.

The Group applies the practical expedient in paragraph 63 of the IFRS 15 and does not adjust the promised transaction price for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good to a customer and when the customer pays for that good will be one year or less.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these new and revised IFRSs is expected to be in the period of initial application. Details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the new and revised IFRSs may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the new and revised IFRSs are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the new and revised IFRSs are initially applied in that interim financial report.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees, the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, IFRS 16 will affect primarily the accounting for the Group's operating lease. The Group's office property lease is currently classified as an operating lease and the lease payments are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16, the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for this lease. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in Note 37, the Group's future minimum lease payments under a non-cancellable operating lease for its office premises, which fall due within one year amounted to approximately RMB88,000 at 31 December 2018. The expected changes in accounting policies as described above would not have a material impact on the Group's consolidated financial statements upon initial adoption of IFRS 16.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss.

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(d) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	10 – 30 years
Leasehold improvement	3 years
Plant and machinery	5 – 20 years
Office equipment	3 – 10 years
Motor vehicles	5 – 10 years

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

The Group as lessee

(i) Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

Prepaid land lease payments are stated at cost and subsequently amortised on the straight-line basis over the remaining term of the lease.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payables. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

The Group as lessor

(i) Operating leases

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible asset

Patent is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over its estimated useful life of 3 years.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is 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.

(h) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

Policy prior to 1 January 2018

In the comparative period, amounts received before the related goods was sold were presented as "deposits from customers" under "trade and other payables". This balance has been reclassified on 1 January 2018 as shown in Note 3.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group 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 (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value 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 FVTPL are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments

Debt instruments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the instrument is calculated using the effective interest method. Typically trade receivables, other receivables, cash and bank balances are classified in this category.

- FVTOCI – recycling, if the contractual cash flows of the instrument comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

- FVTPL, if the investment does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss. This category includes bills receivable.

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for the ECL.

(m) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(o) Financial guarantee contract

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the ECL model under IFRS 9; and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

4. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(p) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Equity instruments

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

(r) Revenue recognition

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales of manufactured goods and trading of raw materials is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income is recognised on a straight-line basis over the lease term.

Policy prior to 1 January 2018

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of manufactured goods and trading of raw materials is recognised on the transfer of significant risk and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "**Ordinance**") for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount specified in the Ordinance per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The retirement benefit costs charged to profit or loss represent contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) 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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

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

(u) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become 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.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items 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 the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) 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 arising on 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

Value in use is the present value of the estimated future cash flows of the asset/CGU. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/CGU whose impairment is being measured.

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(x) Impairment of financial assets

The Group recognises a loss allowance for ECL on its assets carried at amortised cost, such as trade and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. Trade receivables have been grouped based on shared credit risk characteristics. Vast majority of the customers of the Group are involved in clothing or textile industry and located in the PRC. The expected loss rate for the PRC textile industry is a reasonable approximation of the loss rate for trade receivables.

The expected loss rate is based on the industry probability of default and recovery rate for PRC textile industry. The assessment of the expected loss rate is adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets (Continued)

Lifetime ECL represent the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represent the portion of lifetime ECL that are expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

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

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

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

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

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

Definition of default

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

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets (Continued)

Credit-impaired financial assets

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

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

– The disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Policy prior to 1 January 2018

At the end of each reporting period, the Group assesses whether its financial assets other than those at FVTPL are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the financial assets have been affected.

For trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(z) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the factors considered by the directors as detailed in Note 2.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty

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, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. These estimates are based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment at 31 December 2018 was approximately RMB1,082,457,000 (2017: RMB1,092,147,000).

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, approximately RMB29,319,000 (2017: RMB8,914,000) of income tax was charged to profit or loss based on the estimated profit from operations.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB20,617,000 (2017: RMB20,617,000).

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currencies of the Group entities, including Hong Kong dollars ("**HK$**"), Euro ("**EUR**") and United States dollars ("**US$**"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2018, if RMB had weakened 5 per cent against US$ with all other variables held constant, consolidated profit after tax would have been approximately RMB171,000 (2017: RMB354,000) higher, arising mainly as a result of the foreign exchange gain on cash and bank balances and trade receivables denominated in US$. If RMB had strengthened 5 per cent against US$ with all other variables held constant, consolidated profit after tax would have been approximately RMB171,000 (2017: RMB354,000) lower, arising mainly as a result of the foreign exchange loss on cash and bank balances and trade receivables denominated in US$.

At 31 December 2018, if RMB had weakened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax would have been approximately RMB1,320,000 (2017: RMB483,000) lower, arising mainly as a result of the foreign exchange loss on bank borrowings, finance lease payables and other payables denominated in HK$. If RMB had strengthened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax would have been approximately RMB1,320,000 (2017: RMB483,000) higher, arising mainly as a result of the foreign exchange gain on bank borrowings, finance lease payables and other payables denominated in HK$.

At 31 December 2018, no financial asset and liability is denominated in EUR.

At 31 December 2017, if RMB had weakened 5 per cent against EUR with all other variables held constant, consolidated profit after tax would have been approximately RMB469,000 lower, arising mainly as a result of the foreign exchange loss on bills payable denominated in EUR. If RMB had strengthened 5 per cent against EUR with all other variables held constant, consolidated profit after tax would have been approximately RMB469,000 higher, arising mainly as a result of the foreign exchange gain on bills payable denominated in EUR.

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is primarily attributable to its trade and other receivables, bills receivable, pledged bank deposits, restricted bank deposit and cash and bank balances.

The Group has concentration of credit risk on the Group's trade receivables as 99% (2017: 87%) of the customers are involved in clothing or textile industry and located in the PRC.

In order to minimise the credit risk, the directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. Depending on the customer's credit worthiness and historical relationship with the Group, the Group may require cash payment before delivery of products.

The Group grants extended credit terms to customers with overall creditworthiness, as determined by its credit assessment. For customers to whom credit terms are extended, the Group assesses a number of factors to determine whether collection from them is reasonably assured, including past transaction history with them and their creditworthiness. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk arising from bills receivable, restricted bank deposit, pledged bank deposit and bank balances is limited because the counterparties are well-established banks in Hong Kong and the PRC. The credit quality of bills receivable, bank deposits and balances has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate is assessed to be close to zero.

Trade receivables

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of lifetime ECL provision for all trade receivables.

The Group has assessed that the expected loss rate for trade receivables was insignificant. Thus, no loss allowance provision for trade receivables was recognised at 31 December 2018.

Prior to 1 January 2018

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. Trade receivables that was past due but not impaired since there had been no significant change in credit quality and the balances were still considered fully recoverable.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

In preparing the consolidated financial statements, the directors of the Group have given careful consideration to the future liquidity and going concern of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB407,634,000 (2017: RMB525,343,000) at 31 December 2018. Up to the date of these consolidated financial statements were authorised for issue, certain banks agreed to renew bank loans amounting to approximately RMB114,600,000, the Group had undrawn banking facilities of approximately RMB24,592,000 and subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB82,500,000. The Group relies on bank borrowings as significant sources of liquidity. The directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and accordingly, the consolidated financial statements have been prepared on a going concern basis.

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 dates on which the Group can be required to pay. The table includes both interest and principal cash flows.

Specifically, for bank borrowings and finance lease payables which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the banks were to invoke its unconditional rights to call the loans with immediate effect.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2018				
Trade and other payables	**201,652**	**–**	**–**	**201,652**
Bills payable	**173,780**	**–**	**–**	**173,780**
Finance lease payables	**25,064**	**–**	**–**	**25,064**
Bank borrowings	**375,747**	**28,690**	**3,758**	**408,195**
Entrusted loan payable	**3,000**	**52,408**	**–**	**55,408**
	779,243	**81,098**	**3,758**	**864,099**
At 31 December 2017				
Trade and other payables	318,511	–	–	318,511
Bills payable	121,824	–	–	121,824
Accrued interests on consideration payables	3,600	–	–	3,600
Finance lease payable	2,875	–	–	2,875
Bank borrowings	474,555	54,269	20,685	549,509
	921,365	54,269	20,685	996,319

The table below summaries the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed schedule repayments set out in the loan agreements. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank borrowings and finance lease payables will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2018				
Trade and other payables	**201,652**	**–**	**–**	**201,652**
Bills payable	**173,780**	**–**	**–**	**173,780**
Finance lease payables	**6,724**	**6,532**	**14,242**	**27,498**
Bank borrowings	**371,752**	**30,944**	**5,920**	**408,616**
Entrusted loan payable	**3,000**	**52,408**	**–**	**55,408**
	756,908	**89,884**	**20,162**	**866,954**
At 31 December 2017				
Trade and other payables	318,511	–	–	318,511
Bills payable	121,824	–	–	121,824
Accrued interests on consideration payables	3,600	–	–	3,600
Finance lease payable	1,076	1,076	897	3,049
Bank borrowings	468,777	56,434	24,823	550,034
	913,788	57,510	25,720	997,018

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and entrusted loan payable.

The Group's exposure to cash flow interest rate risk relates primarily to variable rate bank borrowings and finance lease payables which is offset by bank deposits held at variable rates varied with the then prevailing market conditions.

The following table details the interest rate profile of the Group's interest bearing financial assets and liabilities at the reporting date:

	2018 RMB'000	2017 RMB'000
Fixed rate financial liabilities		
Bank borrowings	**(353,420)**	(450,721)
Entrusted loan payable	**(50,000)**	–
Variable rate financial assets/(liabilities)		
Bank deposits	**117,281**	103,618
Bank borrowings	**(36,679)**	(77,268)
Finance lease payables	**(25,064)**	(2,875)

The sensitivity analysis below has been determined based on the exposure to cash flow interest rate risk on the Group's variable rate bank borrowings and finance lease payables, offset by bank deposits held at variable rates, at the end of the reporting period and prepared assuming the amounts of bank deposits, bank borrowings and finance lease payables outstanding at the end of reporting period were outstanding for the whole year.

At 31 December 2018, if interest rates had been 50 basis points (2017: 50 basis points) higher, with all other variables held constant, consolidated profit after tax would have been increased by approximately RMB210,000 (2017: RMB108,000). If the interest rate had been 50 basis points (2017: 50 basis points) lower or reduced to nil, whichever is higher, with all other variables held constant, consolidated profit after tax would have been decreased by approximately RMB155,000 (2017: RMB36,000). The Group currently does not have any interest rate hedging policy in relation to interest rate risk. The directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

6. FINANCIAL RISK MANAGEMENT (Continued)

(e) Categories of financial instruments at 31 December 2018

	2018 RMB'000	2017 RMB'000
Financial assets:		
Financial assets at amortised cost	**139,268**	–
Loans and receivables (including bank deposits and cash balances)	**–**	139,105
Financial assets at FVTPL – bills receivable	**8,800**	–
Financial liabilities:		
Financial liabilities at amortised cost	**840,596**	974,799

(f) Fair values

Management of the Group considers that the carrying amounts of financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

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. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

7. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosure of level in fair value hierarchy at 31 December 2018:

Description	Fair value measurement using Level 2 RMB'000
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTPL – bills receivable	8,800

At 31 December 2017, no assets or liabilities were measured at fair values.

(b) Disclosure of valuation techniques and key inputs used in fair value measurements at 31 December 2018:

Level 2 fair value measurements

			Fair value	
Description	Valuation technique	Key input	2018 RMB'000	2017 RMB'000
Bills receivable	Discounted cash flows	Discount rate	**8,800**	N/A

8. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the PRC according to the types of goods delivered, and are regularly reviewed by the chief operating decision-maker (the "**CODM**") to allocate resources to the segments and to assess their performance focuses on type of goods delivered.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive directors of the Company.

During the year ended 31 December 2018, the CODM has identified the following two reportable segments under IFRS 8 "Operating Segments". No operating segments have been aggregated to form the following reportable segments.

(a) Yarns – manufacturing and trading of yarns

(b) Staple fibres – manufacturing and trading of polyester staple fibres

The operations of Jinyuan Textile Co., Ltd. Jiangxi ("**Jiangxi Jinyuan**"), 江西華春色紡科技發展有限公司 (for identification purpose, Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ("**Huachun**")) and Treasure Resources Corporation Limited ("**Treasure Resources**") represent the operating and reportable segment of the sales of yarns.

The operation of 江西鑫源特種纖維有限公司 (for identification purpose, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**")) represents the operating and reportable segment of the sales of polyester staple fibres.

The Group accounts for intersegment sales and transfer as if the sales or transfers were to third parties, i.e. at current market prices.

Segment assets and liabilities are not reported or used by the CODM.

8. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss:

	Yarns RMB'000	Staple Fibres RMB'000	Total RMB'000
Year ended 31 December 2018			
Revenue from external customers	**1,726,879**	**109,282**	**1,836,161**
Intersegment revenue	**–**	**68,494**	**68,494**
Interest income	**941**	**12**	**953**
Interest expense	**(32,874)**	**(2,328)**	**(35,202)**
Depreciation and amortisation	**(57,105)**	**(4,798)**	**(61,903)**
Profit/(Loss) of reportable segments	**101,332**	**(814)**	**100,518**
Year ended 31 December 2017			
Revenue from external customers	1,540,277	42,281	1,582,558
Intersegment revenue	–	54,946	54,946
Interest income	1,109	7	1,116
Interest expense	(53,425)	(2,226)	(55,651)
Depreciation and amortisation	(54,878)	(4,677)	(59,555)
Impairment loss on goodwill	(14,212)	–	(14,212)
Profit/(Loss) of reportable segments	60,371	(5,671)	54,700

8. SEGMENT INFORMATION (Continued)

Reconciliations of segment revenue and profit or loss reviewed by the CODM are as follows:

	2018 RMB'000	2017 RMB'000
Revenue		
Total revenue of reportable segments	**1,904,655**	1,637,504
Elimination of intersegment revenue	**(68,494)**	(54,946)
Group's revenue	**1,836,161**	1,582,558
Profit or loss		
Total profit of reportable segments	**100,518**	54,700
Elimination of intersegment losses	**50**	143
Adjusted for income in relation to government grants	**10,860**	3,919
Unallocated income/(expense):		
Other income, gains and losses	**(165)**	188
Administrative and other expenses	**(1,912)**	(2,091)
Income tax expense	**(29,319)**	(8,914)
Group's profit for the year	**80,032**	47,945

Geographical information

Over 99% (2017: 99%) of the Group's non-current assets were located in the PRC, and accordingly, no related geographical information of non-current assets is presented.

Over 99% (2017: 97%) of the Group's revenue were derived from sales of yarns and polyester staple fibres in the PRC based on where goods are delivered to, which are also same as the location of customers.

Information about major customers

No revenue from single customer contributed over 10% of the total sales of the Group in the years ended 31 December 2018 and 2017.

9. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials. The Group derives revenue from transfer of goods at a point of time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Sales of yarns	**1,726,879**	1,540,277
Sales of staple fibres	**109,282**	42,281
	1,836,161	1,582,558

10. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Interest income on bank deposits	**959**	1,118
Government grants (Note)	**10,860**	3,919
Income from scrap sales	**18,578**	16,422
Rental income	**798**	368
Others	**36**	400
	31,231	22,227

Note: For the year ended 31 December 2018, government grants mainly represented subsidies of approximately RMB10,633,000 (2017: RMB3,692,000) received by the Group for rewarding the Group's past contribution to Fengxin County, Jiangxi Province. The grants were accounted for as financial support with no future related costs expected to be incurred nor related to any assets. As such, an amount of approximately RMB10,633,000 (2017: RMB3,692,000) was recognised in profit or loss when the grants were received. The remaining approximately RMB227,000 (2017: RMB227,000) were related to government grants for the refund of the construction cost of building premises, purchase cost of land use rights and deed tax of the land use rights. The refund of purchase cost of land use rights and deed tax were amortised on a straight-line basis over the life of the corresponding land use rights. The refund of construction cost of building premises were amortised on a straight-line basis over the estimated useful lives of building premises upon completion of the construction.

11. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Impairment loss on goodwill	**–**	(14,212)
Net foreign exchange (loss)/gain	**(2,151)**	5,665
Loss on disposal of property, plant and equipment	**(769)**	(537)
Realised loss on financial assets at FVTPL	**–**	(1,150)
Loss on redemption of note instruments	**–**	(210)
Loss on redemption of convertible bond	**–**	(18,280)
Fair value gain on derivative component of convertible bond	**–**	50,853
Others	**197**	–
	(2,723)	22,129

12. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank borrowings	**35,077**	31,376
Interest on entrusted loan	**125**	–
Interest on consideration payables	**–**	4,053
Interest on convertible bond	**–**	18,986
Interest on notes payable	**–**	1,236
Finance lease charges	**463**	123
	35,665	55,774

13. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the year	**9,594**	8,075
Over-provision in prior year	**(318)**	(367)
	9,276	7,708
Deferred tax (Note 34)	**20,043**	1,206
Total	**29,319**	8,914

No provision for Hong Kong Profits Tax for the years ended 31 December 2018 and 2017 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

The tax charge in respect of the current year represents EIT in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries in the PRC.

Jiangxi Jinyuan, the Company's subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2014. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2018 and 2017.

Huachun and Xinyuan, the Company's subsidiaries, are subject to the EIT tax rate at 25%.

The Group is subject to PRC withholding tax of 10% on the gross interest income from its PRC subsidiaries to the Company.

According to the PRC EIT law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

13. INCOME TAX EXPENSE (Continued)

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**109,351**	56,859
Tax at the applicable rates in the jurisdictions concerned	**19,092**	8,064
Tax effect of income not taxable for tax purpose	**(48)**	(9,801)
Tax effect of expenses not deductible for tax purpose	**1,874**	8,766
Tax effect of temporary differences in prior years recognised in current year	**15,073**	–
Tax effect of temporary differences not recognised	**118**	(3,784)
Tax effect of unused tax losses not recognised	**994**	3,382
Tax effect of utilisation of tax losses not previously recognised	**(4,167)**	–
Tax effect of recognition of tax losses not previously recognised	**(5,918)**	–
Over-provision in prior year	**(318)**	(367)
Effect of different tax rate	**–**	671
Withholding tax arising from undistributed profits of Jiangxi Jinyuan	**2,166**	1,657
Withholding tax arising from interest income	**83**	829
Others	**370**	(503)
Income tax expense for the year	**29,319**	8,914

14. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000
The Group's profit for the year is stated after charging the following:		
Auditor's remuneration		
– Audit	**887**	866
– Others	**257**	234
	1,144	1,100
Operating lease charges		
– Amortisation of prepaid lease payments	**1,077**	1,083
– Land and buildings	**507**	514
Amortisation of intangible asset (included in administrative expenses)	**17**	50
Cost of inventories sold	**1,640,190**	1,440,088
Depreciation	**60,879**	58,494

Cost of inventories sold includes employee benefits expense and depreciation of approximately RMB169,016,000 (2017: RMB147,077,000) and RMB52,120,000 (2017: RMB49,288,000), respectively, which are included in the amounts disclosed in Note 15 and separately above.

15. EMPLOYEE BENEFITS EXPENSE

	2018 RMB'000	2017 RMB'000
Employee benefits expense (excluding directors' emoluments):		
Salaries, bonuses and allowances	**171,348**	152,052
Retirement benefits scheme contributions	**11,428**	5,127
	182,776	157,179

Five highest paid individuals:

The five highest paid individuals in the Group during the year included two (2017: two) directors (one director is also the Company's chief executive) whose emoluments are reflected in the analysis presented in Note 16. The emoluments of the remaining three (2017: three) individuals are set out below:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	**1,305**	1,333
Retirement benefits scheme contributions	**37**	43
	1,342	1,376

	Number of individuals	
	2018	2017
The emoluments fell within the following band:		
Nil to HK$1,000,000	**3**	3

16. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The emoluments paid to or receivable by each of the directors and the chief executive whether of the Company or its subsidiary undertaking are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of directors					
Executive directors					
– Mr. Zheng Hong	–	1,265	–	15	1,280
– Mr. Zheng Yongxiang	–	1,016	2,030	22	3,068
Non-executive director					
– Mr. Sze Irons BBS, JP	126	–	–	–	126
Independent non-executive directors					
– Mr. Ng Wing Ka JP	126	–	–	–	126
– Ms. Zhang Baixiang	126	–	–	–	126
– Mr. Xu Yiliang	126	–	–	–	126
Total for 2018	504	2,281	2,030	37	4,852

16. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of directors				
Executive directors				
– Mr. Zheng Hong	–	1,299	16	1,315
– Mr. Zheng Yongxiang	–	1,044	22	1,066
Non-executive director				
– Mr. Sze Irons BBS, JP	130	–	–	130
Independent non-executive directors				
– Mr. Ng Wing Ka JP	130	–	–	130
– Ms. Zhang Baixiang	130	–	–	130
– Mr. Xu Yiliang	130	–	–	130
Total for 2017	520	2,343	38	2,901

Mr. Zheng Yongxiang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors waived any emoluments in the years ended 31 December 2018 and 2017.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

17. DIVIDENDS

The Board of Directors of the Company does not recommend any dividend in respect of the years ended 31 December 2018 and 2017.

18. EARNINGS PER SHARE

(a) Basic

The calculation of the basic earnings per share is based on the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2017: 1,252,350,000) in issue during the year:

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**80,309**	50,293

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,252,350**	1,252,350

18. EARNINGS PER SHARE (Continued)

(b) Diluted

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**80,309**	50,293
Finance costs saving on conversion of convertible bond outstanding	–	17,655
Loss on redemption of convertible bond	–	17,331
Fair value gain on derivative component of convertible bond	–	(50,853)
Effect of exchange difference in profit or loss that would result from the conversion of convertible bond outstanding	–	(4,130)
Earnings for the purpose of calculating diluted earnings per share	**80,309**	30,296

	2018 '000	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,252,350**	1,252,350
Effect of dilutive potential ordinary shares on conversion of convertible bond outstanding	–	174,345
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,252,350**	1,426,695

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2017	628,926	342	705,109	7,949	8,948	–	1,351,274
Additions	5,089	–	4,678	326	304	–	10,397
Construction expenditure capitalised	–	–	–	–	–	34,339	34,339
Disposal	–	–	(1,727)	(369)	(151)	–	(2,247)
Transfer from construction in progress	430	–	14,516	–	–	(14,946)	–
At 31 December 2017 and 1 January 2018	634,445	342	722,576	7,906	9,101	19,393	1,393,763
Additions	1,765	–	6,252	289	1,158	–	9,464
Construction expenditure capitalised	–	–	–	–	–	44,476	44,476
Disposal	–	–	(6,537)	(243)	–	–	(6,780)
Transfer from construction in progress	2,467	–	31,256	–	–	(33,723)	–
At 31 December 2018	638,677	342	753,547	7,952	10,259	30,146	1,440,923
ACCUMULATED DEPRECIATION							
At 1 January 2017	73,345	342	162,932	2,844	5,235	–	244,698
Charge for the year	19,396	–	37,154	899	1,045	–	58,494
Disposal	–	–	(1,109)	(331)	(136)	–	(1,576)
At 31 December 2017 and 1 January 2018	92,741	342	198,977	3,412	6,144	–	301,616
Charge for the year	19,656	–	39,735	866	622	–	60,879
Disposal	–	–	(3,817)	(212)	–	–	(4,029)
At 31 December 2018	112,397	342	234,895	4,066	6,766	–	358,466
CARRYING AMOUNT							
At 31 December 2018	**526,280**	**–**	**518,652**	**3,886**	**3,493**	**30,146**	**1,082,457**
At 31 December 2017	541,704	–	523,599	4,494	2,957	19,393	1,092,147

All the Group's buildings are located in the PRC.

At 31 December 2018, the carrying amount of property, plant and equipment pledged as security for the Group's bills payable and bank borrowings amounted to approximately RMB631,362,000 (2017: RMB674,714,000).

At 31 December 2018, the carrying amount of property, plant and equipment held by the Group under finance leases amounted to approximately RMB36,362,000 (2017: RMB5,482,000).

20. PREPAID LEASE PAYMENTS

The Group's interests in prepaid lease payments represent prepaid operating lease payments and the net book value are analysed as follows:

	2018 RMB'000	2017 RMB'000
At beginning of year	**44,354**	45,437
Additions	**166**	–
Amortisation of prepaid land lease payments	**(1,077)**	(1,083)
At end of the year	**43,443**	44,354
Current portion	**(1,079)**	(1,075)
Non-current portion	**42,364**	43,279

At 31 December 2018, prepaid lease payments in relation to land use rights in Yichun City, Jiangxi Province, PRC with carrying amount of approximately RMB34,799,000 (2017: RMB39,438,000) were pledged as security for the Group's bills payable and bank borrowings.

21. INTANGIBLE ASSET

	Patent RMB'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	167
ACCUMULATED AMORTISATION	
At 1 January 2017	100
Amortisation for the year	50
At 31 December 2017	150
Amortisation for the year	17
At 31 December 2018	167
CARRYING AMOUNT	
At 31 December 2018	–
At 31 December 2017	17

22. GOODWILL

	2018 RMB'000	2017 RMB'000
COST		
At beginning of the year and at end of the year	**34,829**	34,829
ACCUMULATED IMPAIRMENT LOSSES		
At beginning of the year	**14,212**	–
Impairment loss	**–**	14,212
At end of the year	**14,212**	14,212
CARRYING AMOUNT		
At end of the year	**20,617**	20,617

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU, Huachun's sales of yarns, that is expected to benefit from that business combination.

The recoverable amount of the CGU is determined on the basis of the value in use using discounted cash flow method as assessed by independent qualified professional valuer and approved by the directors. The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rate and budgeted gross margin and revenue during the period. The Group estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rate is based on long-term average economic growth rate of the geographical area in which the business of the CGU operates. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3.0% (2017: 2.6%). This rate does not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows from the Huachun's sales of yarns activities is 15.11% (2017: 13.81%).

An impairment loss on goodwill of approximately RMB14,212,000 was recorded in the year 2017 to reduce the CGU carrying amount to its recoverable amount. No impairment loss on goodwill was recorded in the current year as the CGU recoverable amount exceeded its carrying amount.

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**87,137**	125,608
Work in progress	**23,999**	22,850
Finished goods	**137,964**	96,335
	249,100	244,793

24. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables		
– Third parties	**21,061**	11,011
– A related company (Note)	**–**	350
	21,061	11,361
Advance payment to suppliers	**7,318**	8,868
Prepayments and other receivables	**1,021**	2,212
Other tax recoverables	**2,324**	11,682
	31,724	34,123

Note: At 31 December 2017, the trade receivable due from a related company 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co. Limited ("**Jiangxi Baoyuan**")) is unsecured, interest-free and conducted on cash on delivery basis. Jiangxi Baoyuan is considered as related company of the Group since 80% of its equity interest is owned by a close family member of the executive directors.

In general, the Group receives advance or bills from the customers before the products are delivered. The Group allows some of the long-term and loyal customers to have credit terms of 15 – 90 days depending on creditability of the customers.

No interest is charged on overdue trade receivables. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

The following is an analysis of trade receivables by age, presented based on the invoice date which approximates the respective revenue recognition dates.

24. TRADE AND OTHER RECEIVABLES (Continued)

	2018 RMB'000	2017 RMB'000
0 – 30 days	**18,838**	9,172
31 – 90 days	**2,130**	1,620
Over 90 days	**93**	569
	21,061	11,361

Before accepting any new customer, the Group has assessed the potential customer's credit quality. The Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. For the trade receivables which are past due but not impaired, management considered the balances are with good credit quality with reference to their past repayment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB1,763,000 (2017: RMB1,638,000) at 31 December 2018 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2018 RMB'000	2017 RMB'000
1 – 30 days	**1,670**	903
31 – 90 days	**26**	166
Over 90 days	**67**	569
Total	**1,763**	1,638

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
US$	**9**	1,458
RMB	**21,052**	9,903
Total	**21,061**	11,361

25. BILLS RECEIVABLE

The following is an analysis of bills receivable, presented based on the invoice date:

	2018 RMB'000	2017 RMB'000
0 – 30 days	**3,189**	9,264
31 – 60 days	**1,483**	4,130
61 – 90 days	**1,249**	3,662
91 – 120 days	**1,015**	2,578
121 – 150 days	**658**	1,100
Over 150 days	**1,206**	1,100
	8,800	21,834

Included in bills receivable at 31 December 2018 was an amount of approximately RMB7,561,000 (2017: RMB16,036,000) that were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the bills receivable and the corresponding liabilities.

	Bills receivable endorsed to suppliers with full recourse	
	2018 RMB'000	2017 RMB'000
Carrying amount of recognised financial assets	**7,561**	16,036
Carrying amount of corresponding liabilities not set-off	**(7,561)**	(16,036)

At 31 December 2018, no bills receivable of the Group were pledged as collaterals for secured bank borrowings (2017: bills receivable of approximately RMB1,300,000 were pledged as collaterals to banks by the Group).

The carrying amounts of the Group's bills receivable are denominated in RMB.

The directors estimate that the carrying amounts of the Group's bills receivable is not materially different from its fair value at 31 December 2018.

26. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSIT/CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Pledged bank deposits	**69,791**	46,276
Restricted bank deposit	**500**	–
Cash and bank balances	**47,548**	57,796
	117,839	104,072

Pledged bank deposits, restricted bank deposit and cash and bank balances of the Group carry interest at market rates per annum which are as follows:

	2018	2017
Pledged bank deposits	**0.40% – 1.75%**	0.01% – 1.55%
Restricted bank deposit	**0.30%**	N/A
Cash and bank balances	**0.001% – 1.15%**	0.01% – 1.15%

The carrying amounts of the Group's pledged bank deposits, restricted bank deposit and cash and bank balances are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
HK$	**916**	665
US$	**3,586**	11,713
RMB	**113,337**	91,694
	117,839	104,072

The Group's pledged bank deposits represent deposits pledged to banks to secure bills payable and bank borrowings of the Group as set out in Notes 29 and 32.

The Group's restricted bank deposit represents minimum requirement of deposit placed in a designated bank account.

At 31 December 2018, the pledged bank deposits, restricted bank deposit, cash and bank balances of the Group's PRC subsidiaries denominated in RMB amounted to approximately RMB113,337,000 (2017: RMB91,694,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**66,776**	56,734
Other payables	**6,965**	14,306
Other tax payables	**12,825**	13,314
Accrued salaries and wages	**19,532**	16,275
Other accrued charges	**93,870**	83,469
Payables for acquisition of property, plant and equipment	**14,266**	12,170
Deposits from customers	**–**	13,092
Dividend payables	**243**	243
Accrued interests on consideration payables	**–**	3,600
Amounts due to related companies (Note)	**–**	122,000
	214,477	335,203

Note: The amounts due to related companies, Jiangxi Baoyuan and 奉新寶誠房地產有限公司 (for identification purpose, Fengxin Baocheng Real Estate Limited ("**Fengxin Baocheng**")) of approximately RMB109,0000,000 and RMB13,000,000 respectively were unsecured, interest-free and fully settled in 2018. Jiangxi Baoyuan is considered as a related company of the Group since 80% of its equity interest is owned by a close family member of the Company's executive directors. Fengxin Baocheng is considered as a related company of the Group since 51% of its equity interest held by an executive director of the Company.

The following is an analysis of trade payables by age, presented based on the invoice date which approximates the respective dates when the goods are delivered and the title has passed to the Group:

	2018 RMB'000	2017 RMB'000
0 – 30 days	**51,308**	45,593
31 – 90 days	**13,837**	10,237
Over 90 days	**1,631**	904
	66,776	56,734

In general, the Group makes advance payment to suppliers before the materials or goods are received. The creditors may, in some cases, allow a credit period and the average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

The carrying amounts of the Group's trade payables are denominated in RMB.

28. CONTRACT LIABILITIES

Contractual liabilities at 31 December 2018 amounted to approximately RMB28,017,000 which represented deposits from customers (2017: The contract balance relating to "deposits from customers" amounting to approximately RMB13,092,000 was grouped under "trade and other payables").

Significant changes in contract liabilities during the year are as follows:

	2018 RMB'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	13,092

29. BILLS PAYABLE

The following is an analysis of bills payable, presented based on the invoice date:

	2018 **RMB'000**	2017 RMB'000
0 – 30 days	**42,492**	36,918
31 – 90 days	**45,965**	49,180
Over 90 days	**85,323**	35,726
	173,780	121,824

The carrying amounts of the Group's bills payable are denominated in the following currencies:

	2018 **RMB'000**	2017 RMB'000
EUR	**–**	11,239
US$	**–**	1,444
RMB	**173,780**	109,141
	173,780	121,824

During the year ended 31 December 2017, the Group was not able to comply with an undertaking with a bank in relation to channel its annual trade turnover at a specified amount to the bank. As an on-going condition of the bank facilities, the bank required the Group to comply with this undertaking in the coming year. During the year ended 31 December 2018, the Group complied with the above undertaking with the bank.

30. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants	**7,710**	7,937
Analysed as:		
Current liabilities	**227**	227
Non-current liabilities	**7,483**	7,710
	7,710	7,937

The deferred income comprised government grants for the refund of the purchase cost of land use rights, provided in relation to the establishment of Jiangxi Jinyuan in 2005 amounting to approximately RMB7,488,000 and of the construction cost of the building premises and deed tax of the land use rights, provided in relation to the establishment of Xinyuan in 2015 amounting to approximately RMB2,200,000 and RMB187,000 respectively.

Government grants are recognised as deferred income in the consolidated statement of financial position when received. For the refund of purchase cost of land use rights and deed tax, they are transferred to profit or loss over the lease terms of the corresponding land use rights. For the refund of construction cost of the building premises, it is transferred to profit or loss over the estimated useful lives of building premises upon completion of the construction. These policies have resulted in a credit to profit or loss in the current year of RMB227,000 (2017: RMB227,000). At 31 December 2018, an aggregate carrying amount of RMB7,710,000 (2017: RMB7,937,000) remains to be amortised.

31. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**6,724**	1,076	**5,768**	977
In the second to fifth years, inclusive but contains a repayment on demand clause	**20,774**	1,973	**19,296**	1,898
	27,498	3,049	**25,064**	2,875
Less: Future finance charges	**(2,434)**	(174)	**N/A**	N/A
Present value of lease obligations	**25,064**	2,875	**25,064**	2,875
Less: Portion of amount contains a repayment on demand clause or due for settlement within 12 months (shown under current liabilities)			**(25,064)**	(2,875)
Amount due for settlement after 12 months			**–**	–

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 5 years. At 31 December 2018, the effective borrowing rates ranged from 4.11% to 5.12% (2017: 3.8%) per annum. Interest rates are arranged at floating rates and thus exposes the Group to cash flow interest rate risk. No arrangement has been entered into for contingent rental payments. At the end of the lease terms, the Group has the option to purchase the plant and machinery at nominal prices.

The carrying amount of the Group's finance lease payables are denominated in HK$.

32. BANK BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank loans		
– Secured	**328,760**	367,967
– Unsecured	**61,339**	160,022
	390,099	527,989

	2018 RMB'000	2017 RMB'000
The borrowings are repayable as follows:		
Within one year	**361,697**	456,643
More than one year, but not exceeding two years	**20,492**	58,420
More than two years, but not more than five years	**3,684**	6,920
	385,873	521,983
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**4,226**	6,006
	390,099	527,989
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(365,923)**	(462,649)
Amount due for settlement after 12 months	**24,176**	65,340

At 31 December 2018, certain assets of the Group have been pledged as collaterals for secured bank borrowings (Note 40).

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2018 RMB'000	2017 RMB'000
HK$	**6,339**	8,008
US$	**–**	4,661
RMB	**383,760**	515,320
Total	**390,099**	527,989

32. BANK BORROWINGS (Continued)

The ranges of the interest rates per annum at 31 December are as follows:

	2018	2017
Interest rate:		
Bank loans		
– Fixed-rate borrowings	**4.79% – 8.50%**	1.45% – 7.20%
– Variable-rate borrowings	**3.09% – 5.70%**	3.19% – 7.40%

Bank loans of approximately RMB353,420,000 (2017: RMB450,721,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. Other bank borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate that the carrying amounts of the Group's bank borrowings are not materially different from their fair values at 31 December 2018.

33. ENTRUSTED LOAN PAYABLE

On 4 December 2018, the Group entered into a two-year entrusted loan agreement with a director – Mr. Zheng Yongxiang and a bank in which Mr. Zheng Yongxiang provided a loan of RMB50,000,000 to the Group through this entrusted bank. The entrusted loan is unsecured and arranged at 6% fixed interest rate per annum. The principal amount is repayable on 19 October 2020. The amount of entrusted loan interest paid by the Group during the year ended 31 December 2018 was approximately RMB125,000.

The directors estimate that the carrying amount of the Group's entrusted loan payable is not materially different from its fair value at 31 December 2018.

34. DEFERRED TAX

The following are the deferred tax balances recognised by the Group, and the movements thereon during the current and prior years:

Deferred tax assets/(liabilities)

	Tax losses RMB'000	(Accelerated)/ deductible tax depreciation RMB'000	Fair value adjustments on business combination RMB'000	Undistributed earnings of the PRC subsidiary RMB'000	Total RMB'000
At 1 January 2017	–	2,465	(13,557)	(5,043)	(16,135)
(Charge)/Credit to profit or loss (Note 13)	–	(97)	548	(1,657)	(1,206)
At 31 December 2017 and 1 January 2018	**–**	**2,368**	**(13,009)**	**(6,700)**	**(17,341)**
(Charge)/Credit to profit or loss (Note 13)	**5,918**	**(24,343)**	**548**	**(2,166)**	**(20,043)**
At 31 December 2018	**5,918**	**(21,975)**	**(12,461)**	**(8,866)**	**(37,384)**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**5,918**	2,368
Deferred tax liabilities	**(43,302)**	(19,709)
	(37,384)	(17,341)

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. At 31 December 2018 and 2017, deferred tax has been provided on the entire undistributed earnings on the PRC subsidiary from 1 January 2008.

At the end of the reporting period, the Group has unused tax losses of approximately RMB46,843,000 (2017: RMB56,666,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB23,672,000 (2017: Nil) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately RMB23,171,000 (2017: RMB56,666,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB8,612,000 (2017: RMB48,134,000) that will expire after 5 years from the year of assessment they related to. Other tax losses may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2017 and 31 December 2018	10,000,000	1,000,000

	Number of shares '000	HK$'000	RMB'000
Issued and fully paid:			
At 31 December 2017 and 31 December 2018	**1,252,350**	**125,235**	**101,989**

35. SHARE CAPITAL (Continued)

Capital management

The Group manages its capital to ensure that entities in 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 years.

The capital structure of the Group consists of net debts (which represent total debts include entrusted loan payable, bank borrowings and finance lease payables, net of cash and cash equivalents) and equity attributable to owners of the Company, comprising share capital, share premium and reserves. The capital structure at 31 December 2018 and at 31 December 2017 was as follows:

	2018 RMB'000	2017 RMB'000
Total debts	**465,163**	652,864
Less: Cash and cash equivalents	**(47,548)**	(57,796)
Net debts	**417,615**	595,068
Equity attributable to owners of the Company	**592,159**	511,850
Net debts and equity attributable to owners of the Company	**1,009,774**	1,106,918

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group balances its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

The externally imposed capital requirements for the Group are: (a) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (b) to meet financial covenants attached to the interest-bearing borrowings.

The Group receives a report from the share registrars regularly on substantial share interests showing the non-public float and demonstrates the continuing compliance with the 25% limit throughout the year.

The Group is subject to the maintenance of a specified financial requirement on its consolidated net asset value, consolidated tangible net worth, a specified ratio of consolidated total borrowings to consolidated tangible net worth and a specified adequacy ratio of consolidated earnings before interest, taxes, depreciation and amortisation to consolidated interest expenses. Consolidated total borrowings are calculated as the borrowings disclosed in Notes 29, 31, 32 and 33; whereas consolidated tangible net worth consists of issued share capital, share premium, statutory surplus reserve, special reserve and accumulated losses/retained profits attributable to owners of the Company less intangible asset, deferred tax and goodwill as disclosed in the consolidated financial statements. During the year, the Group complied with the aforesaid financial requirements of its interest-bearing borrowings.

36. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	**6,168**	28,885

37. OPERATING LEASE COMMITMENT

At 31 December 2018, the total future minimum lease payments under a non-cancellable operating lease in respect of rented premises, which fall due as follows:

	2018 RMB'000	2017 RMB'000
Within one year	**88**	501
In the second to fifth year inclusive	**–**	84
	88	585

Lease is negotiated for a lease term of two years with fixed rental over the terms of the relevant lease.

38. RETIREMENT BENEFITS SCHEME

All the Group's PRC employees are required to contribute to retirement benefits scheme promulgated at the national level. It is required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

In addition, the Group operates the MPF Scheme for all qualifying Hong Kong employees in the Group. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs with the maximum monthly amount of HK$1,500 to the MPF Scheme, which contribution is matched by employees.

The total contributions to retirement benefits schemes charged to profit or loss for the year ended 31 December 2018 are disclosed in Notes 15 and 16.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2018, additions of property, plant and equipment of approximately RMB4,533,000 were financed by a finance lease.

During the year ended 31 December 2018, settlement of bill payables of approximately RMB19,424,000 was financed by finance leases.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

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

	1 January 2018 RMB'000	Cash flows RMB'000	Interest expenses/ finance lease charges RMB'000	Exchange differences RMB'000	Additions of property, plant and equipment RMB'000	Settlement of bills payable RMB'000	31 December 2018 RMB'000
Amounts due to related companies	122,000	(122,000)	–	–	–	–	–
Finance lease payables	2,875	(3,491)	463	1,260	4,533	19,424	25,064
Bank borrowings	527,989	(173,323)	35,077	356	–	–	390,099
Entrusted loan payable	–	49,875	125	–	–	–	50,000
	652,864	(248,939)	35,665	1,616	4,533	19,424	465,163

	1 January 2017 RMB'000	Cash flows RMB'000	Interest expenses/ finance lease charges RMB'000	Exchange differences RMB'000	Fair value gain RMB'000	Loss on redemption RMB'000	31 December 2017 RMB'000
Amounts due to related companies	–	122,000	–	–	–	–	122,000
Finance lease payable	4,125	(1,109)	123	(264)	–	–	2,875
Bank borrowings	518,989	(21,664)	31,376	(712)	–	–	527,989
Notes Payable	45,434	(46,172)	1,236	(708)	–	210	–
Convertible bond – liabilities component	69,417	(102,233)	18,986	(4,450)	–	18,280	–
Convertible bond – derivative component	50,853	–	–	–	(50,853)	–	–
	688,818	(49,178)	51,721	(6,134)	(50,853)	18,490	652,864

40. PLEDGE OF ASSETS

At 31 December 2018, the following carrying amounts of assets have been pledged as security for the Group's bills payable, finance lease payables and bank borrowings (Notes 29, 31 and 32):

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	**667,724**	680,196
Prepaid lease payments	**34,799**	39,438
Pledged bank deposits	**69,791**	46,276
Bills receivable	**–**	1,300
	772,314	767,210

The entire equity interest of Huachun has been pledged as security for the Group's bank loan.

41. RELATED PARTY TRANSACTIONS

The Group had the following transactions and balances with its related parties:

(a) Transactions with a related company

	2018 RMB'000	2017 RMB'000
Sales of finished goods to Jiangxi Baoyuan	**20,257**	12,223
Purchase of raw materials from Jiangxi Baoyuan	**490**	–

Jiangxi Baoyuan is considered as a related company of the Group since 80% of its equity interest is owned by a close family member of the executive directors.

41. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	**5,628**	3,697
Post-employment benefits	**60**	60
	5,688	3,757

The remuneration is determined by the directors of the Company having regard to the performance of individuals and market trends.

At 31 December 2018, included in accrued salaries and wages was an amount of approximately RMB113,000 (2017: RMB141,000) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

At 31 December 2018, included in prepayments and other receivables was an amount of approximately RMB218,000 (2017: RMB38,000) being advance of remuneration to directors.

(c) Balances with related companies

	2018 RMB'000	2017 RMB'000
Included in trade receivables:		
Trade receivable – Jiangxi Baoyuan (Note (i))	**–**	350
Included in other payables:		
Amount due to a related company – Jiangxi Baoyuan (Note (ii))	**–**	109,000
Amount due to a related company – Fengxin Baocheng (Note (ii))	**–**	13,000
Entrusted loan payable (Note 33)	**50,000**	–

Notes:

(i) The trade receivable due from a related company – Jiangxi Baoyuan was unsecured, interest-free and fully settled during the year ended 31 December 2018.

(ii) During the year ended 31 December 2018, certain unsecured loans ranging from RMB2,000,000 to RMB40,000,000 were advanced from Jiangxi Baoyuan. These interest-free loans were fully settled during the year ended 31 December 2018.

(d) Other transactions with related parties

At 31 December 2018 and 2017, certain bank borrowings were guaranteed by an executive director of the Company and a close family member of the executive directors of the Company.

42. CONTINGENT LIABILITIES

At 31 December 2018, the Group did not have any significant contingent liabilities (2017: Nil).

43. SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 December 2011, the Company adopted a share option scheme (the "**Option Scheme**"), which will expire 10 years after the date on which the shares of the Company ("**Shares**") commence listing on the Stock Exchange, for the purpose of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group and attracting and retaining or maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Under the Option Scheme, the directors of the Company may grant options to any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The exercise price is determined by the board of the Company, and will not be less than the highest of (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities, (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

The maximum number of shares in respect of which options may be granted under the Option Scheme must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the public floatation, being 100,000,000 Shares, excluding for this purposed Shares which would have been issuable pursuant to the over- allotment option and options which have lapsed in accordance with the terms of the Option Scheme (or any other share option schemes of the Company).

Besides, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant.

No share options were granted by the Company nor exercised by any employees during the years ended 2018 and 2017. There are no share options outstanding at 31 December 2018 and 2017.

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(a) Statement of financial position of the Company

	2018 RMB'000	2017 RMB'000
Non-current assets		
Investments in subsidiaries	**136,043**	56,043
Advances to a subsidiary (Note)	**75,411**	71,177
	211,454	127,220
Current assets		
Prepayments	**298**	117
Amounts due from a subsidiary	**–**	80,000
Cash and bank balances	**324**	351
	622	80,468
Current liabilities		
Other payables	**663**	815
Amount due to a subsidiary	**14,672**	11,725
Financial guarantee contract liabilities	**2,288**	5,404
	17,623	17,944
Net current (liabilities)/assets	**(17,001)**	62,524
Net assets	**194,453**	189,744

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Statement of financial position of the Company (Continued)

		2018 RMB'000	2017 RMB'000
Capital and reserves			
Share capital		**101,989**	101,989
Reserves	44(b)	**92,464**	87,755
Equity		**194,453**	189,744

Note:

In 2012, interest-free advances amounting to approximately RMB92,348,000 were granted to a subsidiary. The fair value of the interest-free advances upon the initial recognition was measured by discounting the nominal amount of the advances at an effective interest rate of 6.55% per annum, being the prevailing market borrowing rate for a similar instrument. The advances to a subsidiary include the imputed interest adjustment made up to 2018.

In the opinion of the directors, the Company will not demand repayment within one year from the end of the reporting period and the advances to a subsidiary is therefore considered as non-current.

Approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Zheng Hong	**Zheng Yongxiang**
DIRECTOR	*DIRECTOR*

44. STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(b) Reserve movement of the Company

	Share Premium RMB'000 (Note 45(b)(i))	Special reserve RMB'000 (Note 45(b)(iii))	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2017	73,903	(81)	(12,358)	61,464
Profit and total comprehensive income for the year	–	–	26,291	26,291
At 31 December 2017 and at 1 January 2018	73,903	(81)	13,933	87,755
Profit and total comprehensive income for the year	–	–	4,709	4,709
At 31 December 2018	73,903	(81)	18,642	92,464

45. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on their shares shall be transferred to share premium account. The application of the share premium account is governed by the Companies Law of the Cayman Islands. Share premium of the Company is distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserves

PRC statutory reserves include statutory surplus reserve and discretionary surplus reserve.

According to the relevant rules and regulations in the PRC, subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

Moreover, upon approval by the equity owner, a subsidiary of the Company transfers 10% of its profit after tax, as determined in accordance with the PRC accounting and regulations, to the discretionary surplus reserve.

(iii) Special reserve

Special reserve arises from the issue of a company's shares in exchange for the shares of companies being acquired, and represents (a) the difference between the nominal value of the Company's shares issued and the value of the shares of Jolly Success International Limited ("**Jolly Success**") acquired, (b) the difference between the nominal value of shares issued for the acquisition of Treasure Resources by Jolly Success and the paid up capital of Treasure Resources, and (c) the difference between the nominal value of shares issued by Treasure Resources for the acquisition of Jiangxi Jinyuan and the net asset value of Jiangxi Jinyuan.

46. SUBSIDIARIES

The Company had direct and indirect interests in the following subsidiaries:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and paid up capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Jolly Success International Limited	British Virgin Islands /Hong Kong	Ordinary HK$1,000	**100%**	–	Investment holding
Treasure Resources Corporation Limited	Hong Kong	Ordinary HK$2,000	–	100%	Investment holding and trading of yarn products and related materials
Jinyuan Textile Co., Ltd., Jiangxi#	PRC	HK$353,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Huachun Color Spinning Technology Development Co., Ltd. △*	PRC	RMB120,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Xinyuan Special Fibres Company Limited △*	PRC	RMB70,000,000	–	51%	Manufacturing and trading of polyester staple fibres

Registered as a wholly foreign-owned enterprise under the PRC law.

△ Registered as a company with limited liability under the PRC law.

* English translation of the name is for identification purposes only.

46. SUBSIDIARIES (Continued)

The following table shows information on Xinyuan that has non-controlling interests ("**NCI**") material to the Group. The summarised financial information represents amounts before inter-company elimination.

Name	Xinyuan	
	2018	2017
Principal place of business/country of establishment	**PRC**	PRC
% of ownership interests/voting rights held by NCI	**49%**	49%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**82,307**	76,685
Current assets	**27,421**	60,837
Non-current liabilities	**(2,116)**	(34,193)
Current liabilities	**(47,740)**	(42,984)
Net assets	**59,872**	60,345
Year ended 31 December:		
Revenue	**177,776**	97,227
Loss	**(473)**	(4,857)
Total comprehensive income	**(473)**	(4,857)
Net cash generated from/(used in) operating activities	**14,339**	(29,721)
Net cash used in investing activities	**(10,508)**	(7,712)
Net cash generated from financing activities	**740**	36,260
Net increase/(decrease) in cash and cash equivalents	**4,571**	(1,173)

The loss allocated to NCI of Xinyuan during the reporting period and the accumulated NCI of Xinyuan at the reporting date are set out below:

	2018 **RMB'000**	2017 RMB'000
Loss allocated to NCI	**(277)**	(2,348)
Accumulated NCI	**29,362**	29,639

47. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The change is related to offsetting of certain deferred tax assets and deferred tax liabilities.

Five Years Financial Summary

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Revenue	846,554	1,302,799	1,435,942	1,582,558	**1,836,161**
Cost of sales	(804,470)	(1,196,908)	(1,280,402)	(1,440,088)	**(1,640,190)**
Gross profit	42,084	105,891	155,540	142,470	**195,971**
Other income	15,330	23,774	16,896	22,227	**31,231**
Other gains and losses	(204)	1,216	(18,619)	22,129	**(2,723)**
Distribution and selling expenses	(12,400)	(25,858)	(25,671)	(24,245)	**(25,752)**
Administrative expenses	(28,366)	(42,874)	(46,304)	(49,948)	**(53,711)**
(Loss)/Gain from fire, net	(52,163)	5,513	–	–	**–**
Finance costs	(17,145)	(51,800)	(52,984)	(55,774)	**(35,665)**
(Loss)/Profit before tax	(52,864)	15,862	28,858	56,859	**109,351**
Income tax credit/(expense)	2,036	(2,305)	(16,059)	(8,914)	**(29,319)**
(Loss)/Profit and total comprehensive income for the year	(50,828)	13,557	12,799	47,945	**80,032**
(Loss)/Profit and total comprehensive income for the year attributable to:					
Owners of the Company	(50,828)	13,823	14,846	50,293	**80,309**
Non-controlling interests	–	(266)	(2,047)	(2,348)	**(277)**
	(50,828)	13,557	12,799	47,945	**80,032**
(Loss)/Earnings per share					
Basic (RMB cents)	(4.96)	1.10	1.19	4.02	**6.41**
Diluted (RMB cents)	(4.96)	1.10	1.19	2.12	**6.41**

	At 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
Assets and liabilities					
Total assets	859,188	1,508,211	1,548,305	1,563,120	**1,556,740**
Total liabilities	(426,300)	(1,044,616)	(1,054,761)	(1,021,631)	**(935,219)**
Net assets	432,888	463,595	493,544	541,489	**621,521**
Equity attributable to:					
Owners of the Company	432,888	446,711	461,557	511,850	**592,159**
Non-controlling interests	–	16,884	31,987	29,639	**29,362**
Total equity	432,888	463,595	493,544	541,489	**621,521**