# CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

## Interim 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 Zhiquan 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

# Management Discussion and Analysis

## MARKET OVERVIEW

In the first half of 2018, the United States (the "**US**") and some of the European Union (the "**EU**") countries have witnessed signs of economic recovery but the growth rates have not been robust. The gross domestic product ("**GDP**") growth rate in the PRC maintained at a rate of 6.8% for the first half of 2018 as compared to 6.9% for the full year of 2017. Instead of pursuing economic growth in quantitative terms, the PRC government is now keen on pursuing sustainable development and putting emphasis on prevention of significant risk, pollution control and poverty reduction.

In the first half of 2018, oil prices have been trending upward and trading at between US$60 and US$75 per barrel for most of the time. Relative stability in prices of oil related raw materials translated into more stable market conditions for polyester yarns related products.

The PRC government has continued with the policy of direct subsidy to cotton farmers in Xinjiang and has orderly auctioned the national cotton reserve. The domestic cotton prices in the PRC have stabilized in the first half of 2018 and have been trading at around RMB15,500 per tonne for most of the time without showing very large fluctuations. The international cotton prices have been between around US77 cents and US93 cents per pound in the first half of 2018. The stabilization of both domestic cotton prices and international cotton prices has largely narrowed their price gap and has created a better competitive environment for the domestic cotton yarn manufacturers with few or no import quotas.

A relatively more stable environment in terms of the prices of raw materials and the continuing increase in internal consumption in the domestic economy in the PRC has contributed to favourable market conditions for the textile industry as a whole. However, the stepping up of the enforcement of environmental protection regulations by the PRC government has affected corporations involved in dyeing and printing business, forcing many smaller market players into suspension or closure. This may affect their upstream suppliers and downstream customers. Other unfavourable factors include weak overseas demand, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia. The recent decision by President Trump of the US to impose import tariff on Chinese import goods and the subsequent retaliation by the PRC government also increased the risk of full scale trade war between the two countries. These factors have introduced risk and uncertainties for the industry as a whole.

## BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with its subsidiaries (the "**Group**") increased by 4.1% from approximately 54,516 tonnes for the six months ended 30 June 2017 to approximately 56,775 tonnes for the six months ended 30 June 2018. The production volume of yarn products of the Group slightly decreased by 0.8% from approximately 58,248 tonnes for the six months ended 30 June 2017 to approximately 57,777 tonnes for the six months ended 30 June 2018. The revenue from the yarn products of the Group increased by 15.0% to approximately RMB798.0 million for the six months ended 30 June 2018 as compared to RMB693.7 million for the six months ended 30 June 2017. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2018 were approximately RMB91.5 million and approximately RMB44.8 million, respectively.

In the first half of 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group is offering around 100 types of yarn products with different material mix and counts to satisfy the needs of different customers.

# Management Discussion and Analysis

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") has continued to rationalize its production in the first half of 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. The sales volume of PSF increased by 130.7% from approximately 4,185 tonnes for the six months ended 30 June 2017 to approximately 9,653 tonnes for the six months ended 30 June 2018. The production volume of PSF increased by 14.7% from approximately 8,380 tonnes for the six months ended 30 June 2017 to approximately 9,608 tonnes for the six months ended 30 June 2018.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group for the six months ended 30 June 2018 was approximately RMB837.7 million, representing an increase of approximately RMB131.3 million, or 18.6%, as compared to the corresponding period last year. The analysis of the sales of the Group's products is as below:

| | **Six months ended 30 June 2018** | | Six months ended 30 June 2017 | |
|---|---|---|---|---|
| | **RMB'000** | | RMB'000 | |
| Polyester yarns | **269,857** | **32.2%** | 209,190 | 29.6% |
| Polyester-cotton and viscose-cotton blended yarns | **346,492** | **41.4%** | 291,985 | 41.4% |
| Cotton yarns | **18,536** | **2.2%** | 23,411 | 3.3% |
| Viscose and stretchable core viscose yarns | **67,500** | **8.1%** | 58,050 | 8.2% |
| Grey and deep grey mélange yarns | **95,651** | **11.4%** | 111,017 | 15.7% |
| Polyester staple fibre | **36,285** | **4.3%** | 7,469 | 1.1% |
| Raw materials | **2,503** | **0.3%** | 473 | 0.1% |
| Others | **896** | **0.1%** | 4,799 | 0.6% |
| | **837,720** | **100.0%** | 706,394 | 100.0% |

The increase in the revenue of the Group for the six months ended 30 June 2018 was mainly attributable to the increase in the average selling price of yarn products of the Group of 10.5% from approximately RMB12,724 per ton for the six months ended 30 June 2017 to approximately RMB14,056 per ton for the six months ended 30 June 2018. The sales volume also increased by approximately 4.1% for the six months ended 30 June 2018 as compared with the corresponding period in 2017.

### Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB62.5 million for the six months ended 30 June 2017 to approximately RMB91.5 million for the six months ended 30 June 2018. The gross profit margin of the Group increased from approximately 8.8% for the six months ended 30 June 2017 to approximately 10.9% for the six months ended 30 June 2018. The increase in gross margin was mainly due to increase in sales. The increase in sales was mainly due to the substantial increase of approximately 10.5% in the average selling prices of the yarn products of the Group and moderate increase in sales volume of approximately 4.1%. Due to improvement in the market conditions in the first half of 2018, the rate of increase in the selling prices of the yarn products of the Group, in particular, polyester yarns, was higher than the rate of increase of the prices of raw materials when compared with that of the corresponding period in 2017.

### Other Income

Other income of the Group increased from approximately RMB11.4 million for the six months ended 30 June 2017 to approximately RMB13.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB2.3 million or 20.2%. The increase in other income was mainly due to increase in income from scrap sales and government grants.

### Other Gains and Losses

Other losses for the six months ended 30 June 2018 was approximately RMB1.5 million while other gains for the six months ended 30 June 2017 was approximately RMB16.6 million. Other gains for the six months ended 30 June 2017 were mainly due to fair value gain on the derivative component of the Group's convertible bond of approximately RMB14.5 million and net foreign exchange gain of RMB3.6 million. Those gains were partly offset by the unrealized loss on forward contract of RMB1.3 million. For the six months ended 30 June 2018, the fair value gain on the derivative component of the convertible bond did not recur as it was fully redeemed in the second half of 2017. The other losses for the period mainly represented the net exchange loss and loss on disposal of property, plant and equipment of approximately RMB1.1 million and RMB0.6 million respectively.

### Distribution and Selling Expenses

Distribution and selling expenses of the Group remained about the same at approximately RMB11.9 million for the six months ended 30 June 2018 as compared to approximately RMB11.7 million for the six months ended 30 June 2017. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.4% for the six months ended 30 June 2018 (six months ended 30 June 2017: 1.7%).

### Administrative Expenses

Administrative expenses of the Group increased from approximately RMB24.4 million for the six months ended 30 June 2017 to approximately RMB25.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB1.3 million or 5.3%. The increase in administrative expenses was mainly due to increase in directors' remuneration. Administrative expenses as a percentage of revenue of the Group was approximately 3.1% for the six months ended 30 June 2018 (six months ended 30 June 2017: 3.5%).

### Finance Costs

Finance costs of the Group decreased from approximately RMB29.5 million for the six months ended 30 June 2017 to approximately RMB17.0 million for the six months ended 30 June 2018, representing a decrease of 42.4% or approximately RMB12.5 million. The decrease in the Group's finance costs was mainly due to decrease in interest on the Group's convertible bond resulting from its full redemption in the second half of 2017.

### Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2018 was approximately 12.2%, as compared to 18.9% for the corresponding period in 2017. The decrease in effective income tax rate was mainly due to the utilization of tax loss carried forward by Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ("**Huachun**"), the Group's subsidiary in the PRC, for the six months ended 30 June 2018.

### Profit attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately RMB44.8 million, representing an increase of approximately RMB22.5 million, or 100.9%, as compared to that for the six months ended 30 June 2017. The net profit margin of the Group for the six months ended 30 June 2018 was approximately 5.3% representing an increase of 2.1 percentage points as compared with 3.2% for the six months ended 30 June 2017. The increase in the Group's net profit was mainly due to the increase in gross profit and decrease in finance cost, partially offset by the decrease in other gains.

### Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2018 was approximately RMB3.58 cents, representing an increase of approximately 101.1% as compared with approximately RMB1.78 cents for the six months ended 30 June 2017. The increase in basic earnings per share of the Company was due to the increase in net profit for the six months ended 30 June 2018. The diluted earnings per share of the Company increased from approximately RMB1.14 cents for the six months ended 30 June 2017 to approximately RMB3.58 cents (equals basic earnings per share) for the six months ended 30 June 2018, representing an increase of approximately 214.0% or RMB2.44 cents. The increase in diluted earnings per share was due to the Company early redeemed the convertible bond in the second half of 2017, and no dilutive effect in the first half of 2018.

### 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 six months ended 30 June 2018, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB54.0 million (31 December 2017: RMB57.8 million) and pledged bank deposits of approximately RMB71.5 million (31 December 2017: RMB46.3 million) at 30 June 2018. The Group's cash and bank balances were mainly held in Hong Kong Dollars, US Dollars and Renminbi ("**RMB**").

### Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and Hong Kong Dollars. At 30 June 2018, the Group's interest-bearing borrowings amounted to approximately RMB500.7 million (31 December 2017: RMB530.9 million), RMB461.9 million (92.3%) of which (31 December 2017: RMB465.5 million (87.7%)) was repayable within one year or on demand. 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 RMB849.7 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 lease payables and bills payable to total assets, was approximately 42.3% at 30 June 2018 (31 December 2017: 41.9%). Net current liabilities and net assets at 30 June 2018 was approximately RMB494.1 million (31 December 2017: RMB525.3 million) and approximately RMB584.6 million (31 December 2017: RMB541.5 million), respectively.

### Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, trade and other receivables, bills payable, bank borrowings, finance lease payable 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 at 30 June 2018 were approximately RMB4.2 million (31 December 2017: RMB15.5 million) and RMB25.2 million (31 December 2017: 29.6million), respectively. The Group had not used any financial instrument for hedging purposes during the six months ended 30 June 2018.

### Contingent Liabilities

At 30 June 2018, the Group did not have any contingent liabilities.

### Employees, Remuneration and Share Option Scheme

At 30 June 2018, the Group had a total of 3,263 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 six months ended 30 June 2018, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

## PROSPECTS

A relatively more stable environment in terms of the prices of raw materials and the continuing increase in internal consumption in the domestic economy in the PRC has contributed to favourable market conditions for the industry. However, unfavourable factors including impact of environment protection regulations, poor overseas demand, keen domestic and overseas competition and escalation in trade conflict between the US and PRC have introduced risk and uncertainties to the industry.

In the first half of 2018, the Group has continued to rationalise its production capacities and further diversified its product portfolio. The Group is offering around 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.

Looking forward, the sluggish overseas demand, 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.

# Corporate Governance and Other Information

## DIVIDEND

The Board does not recommend any dividend in respect of the six months ended 30 June 2018.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company ("**Shares**") during the six months ended 30 June 2018.

## DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 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 | 43,005,200 Shares | 3.43% |

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 30 June 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 the shareholders of the Company (the "**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 the adoption of the Scheme. The remaining life of the Scheme is approximately 3.3 years as at the date of this report. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 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, (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 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 on which the shares commence listing on the Main Board of the Stock Exchange.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until 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.

# Corporate Governance and Other Information

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2018, so far as is known to any Director or chief executive of the Company, the persons or corporations (other than Directors 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 shareholdingin 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% |
| Da Yu Investments[3] | Beneficial owner | Long position | 67,567,500 Shares | 5.40% |
| Ms. Xie Meijing[3] | Interest of a controlled corporation | Long position | 67,567,500 Shares | 5.40% |

Notes:

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

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

3. Da Yu Investments Limited ("**Da Yu Investments**") is wholly-owned by Ms. Xie Meijing ("**Ms. Xie**"). For the purpose of Part XV of the SFO, Ms. Xie is deemed to be interested in the Shares held by Da Yu Investments.

## CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2018, the Company had complied with the code provisions of the existing 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 C.2.5 of the CG Code, the Company has not set up an Internal Audit ("**IA**") function. Having 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 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 review the need of an IA function on an annual basis.

# Corporate Governance and Other Information

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules 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 six months ended 30 June 2018.

## AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL INFORMATION

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and reviewed the unaudited condensed consolidated financial information for the six months ended 30 June 2018.

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

For the six months ended 30 June 2018

| | Note | Six months ended 30 June 2018 (unaudited) RMB'000 | 2017 (unaudited) RMB'000 |
|---|---|---|---|
| **Revenue** | 7 | **837,720** | 706,394 |
| Cost of sales | | **(746,230)** | (643,918) |
| **Gross profit** | | **91,490** | 62,476 |
| Other income | 8 | **13,725** | 11,428 |
| Other gains and losses | 9 | **(1,450)** | 16,618 |
| Distribution and selling expenses | | **(11,924)** | (11,680) |
| Administrative expenses | | **(25,714)** | (24,426) |
| Finance costs | 10 | **(17,012)** | (29,531) |
| **Profit before tax** | | **49,115** | 24,885 |
| Income tax expense | 11 | **(5,997)** | (4,704) |
| **Profit and total comprehensive income for the period** | 12 | **43,118** | 20,181 |
| **Profit and total comprehensive income for the period attributable to:** | | | |
| Owners of the Company | | **44,827** | 22,319 |
| Non-controlling interests | | **(1,709)** | (2,138) |
| | | **43,118** | 20,181 |
| **Earnings per share** | 14 | | |
| Basic | | **RMB3.58 cents** | RMB1.78 cents |
| Diluted | | **RMB3.58 cents** | RMB1.14 cents |

# Condensed Consolidated Statement of Financial Position

At 30 June 2018

| | Note | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **1,078,138** | 1,092,147 |
| Prepaid lease payments | | **42,903** | 43,279 |
| Intangible asset | | **–** | 17 |
| Deposits on acquisition of property, plant and equipment | | **2,032** | 1,163 |
| Goodwill | | **20,617** | 20,617 |
| Deferred tax assets | | **2,320** | 2,368 |
| | | **1,146,010** | 1,159,591 |
| **Current assets** | | | |
| Inventories | 16 | **251,660** | 244,793 |
| Trade and other receivables | 17 | **52,908** | 34,123 |
| Bills receivable | 18 | **16,785** | 21,834 |
| Prepaid lease payments | | **1,079** | 1,075 |
| Pledged bank deposits | | **71,481** | 46,276 |
| Cash and bank balances | | **53,974** | 57,796 |
| | | **447,887** | 405,897 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **296,950** | 335,203 |
| Bills payable | 20 | **173,744** | 121,824 |
| Deferred income | | **227** | 227 |
| Finance lease payable | | **16,648** | 2,875 |
| Bank borrowings | 21 | **445,213** | 462,649 |
| Current tax liabilities | | **9,173** | 8,462 |
| | | **941,955** | 931,240 |
| **Net current liabilities** | | **(494,068)** | (525,343) |
| **Total assets less current liabilities** | | **651,942** | 634,248 |

# Condensed Consolidated Statement of Financial Position

At 30 June 2018

| | Note | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | | **7,596** | 7,710 |
| Bank borrowings | 21 | **38,829** | 65,340 |
| Deferred tax liabilities | | **20,910** | 19,709 |
| | | **67,335** | 92,759 |
| **NET ASSETS** | | **584,607** | 541,489 |
| **Capital and reserves** | | | |
| Share capital | 22 | **101,989** | 101,989 |
| Reserves | | **454,688** | 409,861 |
| **Equity attributable to owners of the Company** | | **556,677** | 511,850 |
| Non-controlling interests | | **27,930** | 29,639 |
| **TOTAL EQUITY** | | **584,607** | 541,489 |

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

| | Unaudited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | | |
| | Share capital | Share premium | PRC statutory reserves | Special reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | 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 period | – | – | – | – | 22,319 | 22,319 | (2,138) | 20,181 |
| At 30 June 2017 | 101,989 | 73,903 | 78,049 | 148,739 | 81,196 | 483,876 | 29,849 | 513,725 |
| At l 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 period | **–** | **–** | **–** | **–** | **44,827** | **44,827** | **(1,709)** | **43,118** |
| **At 30 June 2018** | **101,989** | **73,903** | **86,334** | **148,739** | **145,712** | **556,677** | **27,930** | **584,607** |

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES** | **190,446** | (52,248) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Placement of pledged bank deposits | **(102,151)** | (22,431) |
| Withdrawal of pledged bank deposits | **76,946** | 31,564 |
| Interest received | **500** | 361 |
| Purchase of property, plant and equipment | **(13,626)** | (14,722) |
| Addition of prepaid lease payments | **(166)** | – |
| Proceeds from disposal of property, plant and equipment | **1,961** | 10 |
| Deposits paid for acquisition of property, plant and equipment | **(2,032)** | (439) |
| Interest paid for consideration payable for the acquisition of a subsidiary | **(3,600)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(42,168)** | (5,657) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Advance from a related company | **66,000** | 126,500 |
| Repayment of advance from related companies | **(188,000)** | (49,500) |
| Advance from third parties | **15,000** | 5,000 |
| Proceeds from bank borrowings | **149,950** | 247,600 |
| Repayment of bank borrowings | **(193,969)** | (275,552) |
| Repayment of finance lease payable | **(1,081)** | (497) |
| Repayment of note instruments | **–** | (44,293) |
| **NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES** | **(152,100)** | 9,258 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(3,822)** | (48,647) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **57,796** | 93,443 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **53,974** | 44,796 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **53,974** | 44,796 |

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2018

## 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 (collectivity referred to as the "**Group**") are principally engaged in the business of manufacturing and trading of yarn products and related raw materials.

This condensed consolidated financial information for the six months ended 30 June 2018 is presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

The Group continues to adopt the going concern basis in preparing its condensed consolidated financial information. At 30 June 2018, the Group had net current liabilities of approximately RMB494,068,000. 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 condensed consolidated financial information has been prepared on a going concern basis as the directors of the Company 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 condensed consolidated financial information was authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB227,100,000 currently included in current liabilities at 30 June 2018.

    (ii) Undrawn banking facilities amounting to approximately RMB27,914,000.

    (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB32,000,000.

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

## 2. BASIS OF PREPARATION (Continued)

(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 condensed consolidated financial information has 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 this condensed consolidated financial information.

This condensed consolidated financial information should be read in conjunction with the 2017 annual financial statements. The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financing Reporting Standards ("**IFRSs**") issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise International Financing Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations.

The Group has initially adopted IFRS 9 Financial Instruments ("**IFRS 9**") and IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**") from 1 January 2018. The impact of the adoption of IFRS 9 and IFRS 15 have been summarised below. A number of other new or revised IFRSs that are effective from 1 January 2018 do not have a material effect on the Group's condensed consolidated financial information.

### IFRS 9 Financial Instruments

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

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies. As permitted by the transitional provisions of IFRS 9, the Group was elected not to restate comparative figures. There is no impact of transition to IFRS 9 on retained earnings before 1 January 2018.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

### IFRS 9 Financial Instruments (Continued)

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

(a) those to be measured subsequently at fair value through other comprehensive income or fair value through profit or loss, and

(b) 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.

Trade and bills receivables that were classified as loans and receivables under IAS 39 are now classified as amortised cost.

For trade and bills 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. Apart from the above, the adoption of IFRS 9 does not have a material effect on the Group's condensed consolidated financial information as the amount of impairment measured under the expected credit loss impairment model is immaterial.

### IFRS 15 Revenue from Contracts 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 adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. There is no impact of transition to IFRS 15 on retained earnings before 1 January 2018.

Previously, revenue from the sale of manufactured goods and trading of raw materials was generally recognised at a point in time when the risks and rewards of ownership of goods had passed to the customers.

## 3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

**IFRS 15 Revenue from Contracts with Customers** (Continued)

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

## 4. NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that have been issued but are not yet effective. The Group will adopt the new standards and amendments to standards on the respective effective dates.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the below new standard issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

## 4. NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE (Continued)

### IFRS 16 Leases

IFRS 16, effective on or after 1 January 2019, replaces IAS 17 Leases and related interpretations. For lessees the distinction between operating leases and finance leases is removed. 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).

The standard will affect primarily the accounting of the Group's office property lease, which is currently classified as operating lease. As disclosed in Note 24, the Group's future minimum lease payments under a non-cancellable operating lease for its office property amounted to approximately RMB339,000 at 30 June 2018. The Group will perform a more detailed assessment in order to determine the new assets and liabilities arising from its operating lease commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

## 5. FAIR VALUE MEASUREMENTS

The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded in the condensed consolidated financial information approximate to their fair value.

## 6. 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 six months ended 30 June 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.

## 6. SEGMENT INFORMATION (Continued)

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.

Information about reportable segment profit or loss:

| | Yarns (unaudited) RMB'000 | Staple Fibres (unaudited) RMB'000 | Total (unaudited) RMB'000 |
|---|---|---|---|
| **Six months ended 30 June 2018** | | | |
| **Revenue from external customers** | **801,434** | **36,286** | **837,720** |
| **Intersegment revenue** | **–** | **34,375** | **34,375** |
| **Interest income** | **492** | **7** | **499** |
| **Interest expense** | **(15,618)** | **(1,237)** | **(16,855)** |
| **Depreciation and amortisation** | **(28,947)** | **(2,351)** | **(31,298)** |
| **Profit/(Loss) of reportable segments** | **49,491** | **(3,406)** | **46,085** |

| | Yarns (unaudited) RMB'000 | Staple Fibres (unaudited) RMB'000 | Total (unaudited) RMB'000 |
|---|---|---|---|
| Six months ended 30 June 2017 | | | |
| Revenue from external customers | 698,925 | 7,469 | 706,394 |
| Intersegment revenue | – | 17,694 | 17,694 |
| Interest income | 356 | 4 | 360 |
| Interest expense | (28,461) | (1,011) | (29,472) |
| Depreciation and amortisation | (26,931) | (2,321) | (29,252) |
| Profit/(Loss) of reportable segments | 27,297 | (4,482) | 22,815 |

## 6. SEGMENT INFORMATION (Continued)

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **Revenue** | | |
| Total revenue of reportable segments | **872,095** | 724,088 |
| Elimination of intersegment revenue | **(34,375)** | (17,694) |
| Group's revenue | **837,720** | 706,394 |
| **Profit or loss** | | |
| Total profit of reportable segments | **46,085** | 22,815 |
| Elimination of intersegment losses | **78** | 119 |
| Adjusted for income in relation to government grants | **4,581** | 2,997 |
| Unallocated expense, net | | |
| Other income, gains and losses | **(605)** | (130) |
| Administrative and other expenses | **(1,024)** | (916) |
| Taxation | **(5,997)** | (4,704) |
| Group's profit for the period | **43,118** | 20,181 |

## 7. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials.

Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

## 8. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Interest income on bank deposits | **500** | 361 |
| Government grants | **4,581** | 2,997 |
| Income from scrap sales | **8,203** | 7,587 |
| Rental income | **419** | 318 |
| Others | **22** | 165 |
| | **13,725** | 11,428 |

## 9. OTHER GAINS AND LOSSES

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Fair value gain on derivative component of convertible bond | **–** | 14,492 |
| Net foreign exchange (loss)/gain | **(1,057)** | 3,613 |
| Loss on disposal of property, plant and equipment | **(590)** | (26) |
| Loss on early redemption of note instruments | **–** | (210) |
| Realised gain on financial assets at fair value through profit or loss | **–** | 75 |
| Unrealised loss on financial liabilities at fair value through profit or loss | **–** | (1,326) |
| Others | **197** | – |
| | **(1,450)** | 16,618 |

## 10. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Interest on bank borrowings | **16,856** | 13,552 |
| Interest on consideration payables | **–** | 2,263 |
| Interest on convertible bond | **–** | 12,422 |
| Interest on notes payable | **–** | 1,236 |
| Finance leases charges | **156** | 58 |
| | **17,012** | 29,531 |

## 11. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Current tax | | |
| PRC Enterprise Income Tax ("**EIT**") | | |
| Provision for the period | **4,748** | 3,971 |
| Deferred tax | **1,249** | 733 |
| | **5,997** | 4,704 |

No provision for Hong Kong Profits Tax for the six months ended 30 June 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 period 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, had 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 periods ended 30 June 2018 and 2017.

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

The Group is subject to the 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.

## 12. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Depreciation | **30,780** | 28,717 |
| Operating lease charges | | |
| – Amortisation of prepaid lease payments | **538** | 545 |
| – Land and buildings | **244** | 258 |
| Amortisation of intangible asset | **17** | 25 |
| Cost of inventories sold | **746,230** | 643,918 |

## 13. DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2018 and 2017.

## 14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company) | **44,827** | 22,319 |
| Finance costs saving on conversion of convertible bond outstanding | **–** | 11,536 |
| Effect of exchange gain relating to dilutive potential ordinary shares | **–** | (2,436) |
| Effect of fair value gain on derivative component of convertible bond | **–** | (14,492) |
| Earnings for the purpose of calculating diluted earnings per share | **44,827** | 16,927 |

## 14. EARNINGS PER SHARE (Continued)

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **'000** | '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 arising from convertible bond outstanding | **–** | 227,000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share | **1,252,350** | 1,479,350 |

## 15. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment of approximately RMB19,322,000 (unaudited) (for the year ended 31 December 2017: RMB44,736,000 (audited)). These acquisitions are mainly in relation to its manufacturing plants in the PRC.

## 16. INVENTORIES

| | **30 June** | 31 December |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (audited) |
| | **RMB'000** | RMB'000 |
| Raw materials | **116,387** | 125,608 |
| Work in progress | **25,821** | 22,850 |
| Finished goods | **109,452** | 96,335 |
| | **251,660** | 244,793 |

## 17. TRADE AND OTHER RECEIVABLES

| | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Trade receivables | | |
| – Third parties | **15,068** | 11,011 |
| – A related company (Note) | **1,067** | 350 |
| | **16,135** | 11,361 |
| Advance payment to suppliers | **23,919** | 8,868 |
| Prepayments and other receivables | **967** | 2,212 |
| Other tax recoverables | **11,887** | 11,682 |
| | **52,908** | 34,123 |

Note: At 30 June 2018, 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.

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

| | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| 0 – 30 days | **13,919** | 9,172 |
| 31 – 90 days | **2,018** | 1,620 |
| 91 – 180 days | **109** | 569 |
| Over 270 days | **89** | – |
| | **16,135** | 11,361 |

## 18. BILLS RECEIVABLE

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

| | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| 0 – 30 days | **7,908** | 9,264 |
| 31 – 60 days | **1,965** | 4,130 |
| 61 – 90 days | **4,689** | 3,662 |
| 91 – 120 days | **1,203** | 2,578 |
| 121 – 150 days | **–** | 1,100 |
| Over 150 days | **1,020** | 1,100 |
| | **16,785** | 21,834 |

Included in bills receivable at 30 June 2018 was an amount of approximately RMB12,619,000 (unaudited) (at 31 December 2017: RMB16,036,000 (audited)) 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 | |
|---|---|---|
| | 30 June 2018 (unaudited) RMB'000 | 31 December 2017 (audited) RMB'000 |
| Carrying amount of recognised financial assets | **12,619** | 16,036 |
| Carrying amount of corresponding liabilities not set-off | **(12,619)** | (16,036) |

At 30 June 2018, no bills receivable (unaudited) (at 31 December 2017: RMB1,300,000 (audited)) of the Group have been pledged as collateral for secured bank borrowings.

## 19. TRADE AND OTHER PAYABLES

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Trade payables | **128,196** | 56,734 |
| Other payables | **24,410** | 14,306 |
| Other tax payables | **12,850** | 13,314 |
| Accrued for salaries and wages | **13,871** | 16,275 |
| Other accrued charges | **80,220** | 83,469 |
| Payables for acquisition of property, plant and equipment | **8,388** | 12,170 |
| Deposits from customers | **28,772** | 13,092 |
| Dividend payables | **243** | 243 |
| Accrued interests on consideration payables | **–** | 3,600 |
| Amounts due to related companies (Note) | **–** | 122,000 |
| | **296,950** | 335,203 |

Note: At 31 December 2017, 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 RMB109,000,000 (audited) and RMB13,000,000 (audited) respectively are unsecured, interest-free and repayable on demand. 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 is held by an executive director of the Company. The amounts due to related companies were fully repaid by the Group during the six months ended 30 June 2018.

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 titles have passed to the Group:

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| 0 – 30 days | **75,311** | 45,593 |
| 31 – 90 days | **45,756** | 10,237 |
| Over 90 days | **7,129** | 904 |
| | **128,196** | 56,734 |

## 20. BILLS PAYABLE

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

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| 0 – 30 days | **40,549** | 36,918 |
| 31 – 90 days | **58,714** | 49,180 |
| Over 90 days | **74,481** | 35,726 |
| | **173,744** | 121,824 |

## 21. BANK BORROWINGS

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Bank loans | | |
| – Secured | **391,937** | 367,967 |
| – Unsecured | **92,105** | 160,022 |
| | **484,042** | 527,989 |
| Amount payable within one year | **445,213** | 462,649 |
| Amount payable over one year | **38,829** | 65,340 |
| | **484,042** | 527,989 |

At 30 June 2018, certain assets of the Group have been pledged as collateral for secured bank borrowings.

The directors estimate that the carrying amounts of the Group's bank borrowings are not materially different from their fair value at 30 June 2018.

## 22. SHARE CAPITAL

| | Number of shares '000 | HK$'000 |
|---|---|---|
| **Ordinary shares of HK$0.1 each** | | |
| Authorised: | | |
| At 31 December 2017 (audited) and 30 June 2018 (unaudited) | **10,000,000** | **1,000,000** |

| | Number of shares '000 | HK$'000 | RMB'000 |
|---|---|---|---|
| Issued and fully paid: | | | |
| At 31 December 2017 (audited) and 30 June 2018 (unaudited) | **1,252,350** | **125,235** | **101,989** |

## 23. CAPITAL COMMITMENTS

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Acquisition of property, plant and equipment and construction of new production facilities and infrastructure | **36,627** | 28,885 |

## 24. OPERATING LEASE COMMITMENTS

At 30 June 2018, the total future minimum lease payments under a non-cancellable operating lease in respect of rented premises fall due as follows:

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Within one year | **339** | 501 |
| In the second to fifth years inclusive | **–** | 84 |
| | **339** | 585 |

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

## 25. RELATED PARTY TRANSACTIONS

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

### (a) Transactions with a related company

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Sales of finished goods to Jiangxi Baoyuan | **14,678** | 722 |
| Purchase of raw materials from Jiangxi Baoyuan | **157** | – |

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.

### (b) Compensation of Key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the six months ended 30 June 2018 are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | **(unaudited)** | (unaudited) |
| | **RMB'000** | RMB'000 |
| Short term benefits | **3,769** | 1,860 |
| Post-employment benefits | **28** | 30 |
| | **3,797** | 1,890 |

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

At 30 June 2018, included in accrued salaries and wages was an amount of approximately RMB60,000 (unaudited) (at 31 December 2017: RMB141,000 (audited)) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

At 30 June 2018, included in prepayments and other receivables was an amount of approximately RMB45,000 (unaudited) (at 31 December 2017: RMB38,000 (audited)) being advance of remuneration to a director.

## 25. RELATED PARTY TRANSACTIONS (Continued)

### (c) Balances with related companies

| | **30 June 2018 (unaudited) RMB'000** | 31 December 2017 (audited) RMB'000 |
|---|---|---|
| Included in trade receivables: | | |
| Trade receivable – Jiangxi Baoyuan (Note (i)) | **1,067** | 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 (iii)) | **–** | 13,000 |

Notes:

(i) At 30 June 2018, the trade receivable due from a related company – Jiangxi Baoyuan is unsecured, interest-free and conducted on cash on delivery basis.

(ii) During the six months ended 30 June 2018, certain unsecured loans ranging from RMB2,000,000 to RMB32,000,000 (during the year ended 31 December 2017: ranging from RMB500,000 to RMB20,000,000) were advanced from a related company, Jiangxi Baoyuan. These loans were interest-free and repayable on demand. These loans were fully repaid by the Group during the six months ended 30 June 2018.

(iii) During the year ended 31 December 2017, certain unsecured loans ranging from RMB4,000,000 to RMB8,000,000 were advance from Fengxin Baocheng. Fengxin Baocheng is considered as a related company of the Group since 51% of its equity interest is owned by an executive director of the Company. These loans were interest-free and repayable on demand. The outstanding balance at 31 December 2017 was fully repaid by the Group during the six months ended 30 June 2018.

### (d) Other transactions with related parties

At 30 June 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.

## 26. CONTINGENT LIABILITIES

At 30 June 2018, the Group did not have any significant contingent liabilities (at 31 December 2017: Nil).

## 27. APPROVAL OF FINANCIAL INFORMATION

The condensed consolidated financial information was approved and authorised for issue by the Board of Directors on 24 August 2018.