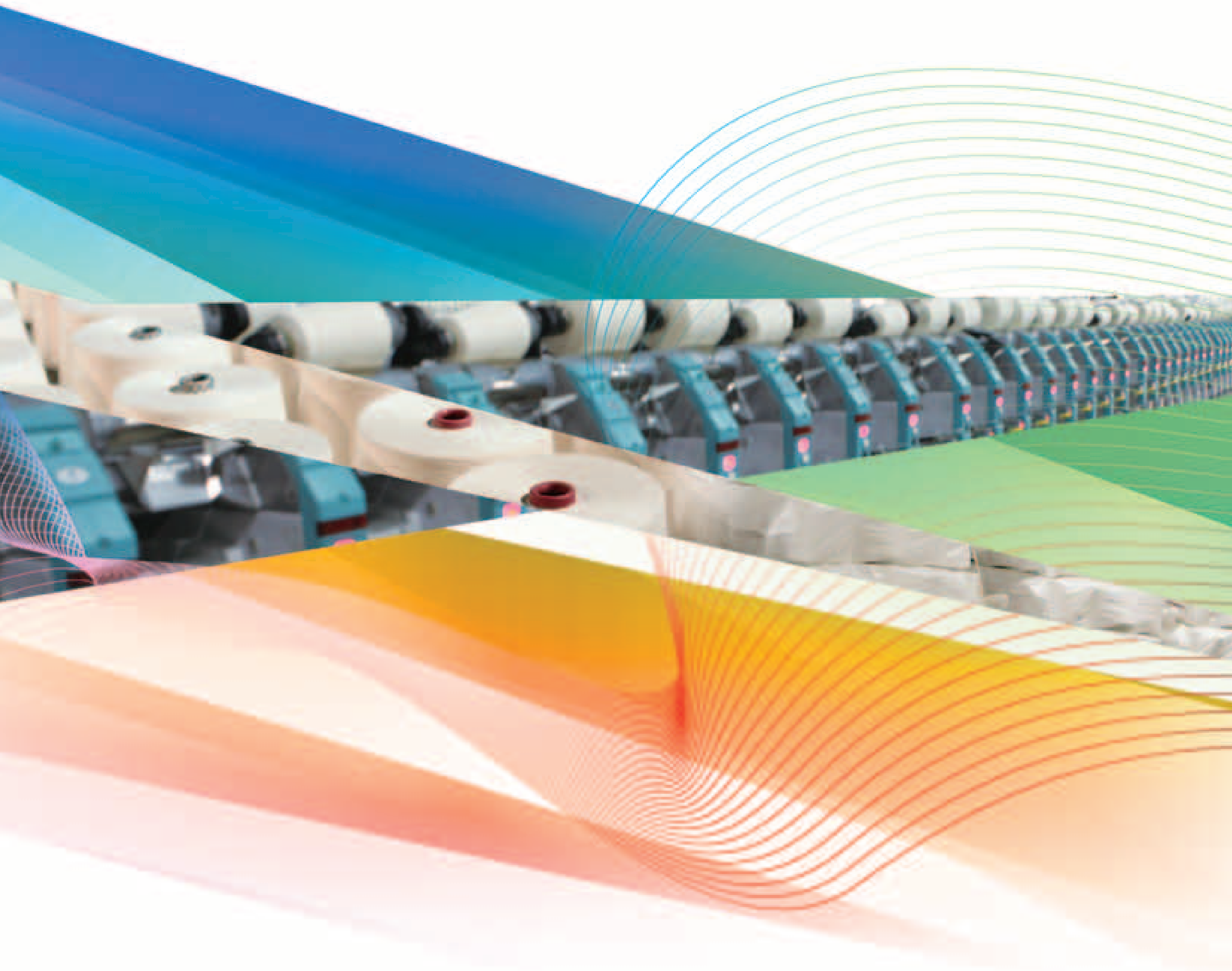
CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778



Annual Report 2016

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 (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

BOARD COMMITTEES

Audit Committee
Ms. Zhang Baixiang *(Chairman)*
Mr. Ng Wing Ka JP
Mr. Xu Yiliang (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

Remuneration Committee
Mr. Ng Wing Ka JP *(Chairman)*
Ms. Zhang Baixiang
Mr. Zheng Hong
Mr. Xu Yiliang (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

Nomination Committee
Mr. Zheng Hong *(Chairman)*
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

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.Box2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS 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, AXA Centre
151 Gloucester Road
Wanchai, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Orrick, Herrington & Sutcliffe

As to the PRC law:
Jiangxi Zhiquan Law Offices

AUDITOR

RSM Hong Kong
Certified Public Accountants

INVESTORS RELATIONSHIP CONSULTANT

Anli Financial Communications Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR 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 REGISTRAR 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 Communications Limited
(Nanchang Donghu Sub-branch)
Bank of Jiujiang
(Fengxin Sub-branch)
China CITIC Bank
(Nanchang Branch)
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Fengxin Rural Commercial Bank
Nanyang Commercial Bank (China) Limited
(Shenzhen Branch)
Shanghai Pudong Development Bank Co. Ltd.
(Nanchang Branch)
Bank of China (Hong Kong) Limited
CTBC Bank Co. Ltd., Hong Kong Branch
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Chairman's Statement

2016 was challenging for the textile industry as the global economy showed little signs of recovery and the growth in the domestic economy in the PRC has slowed down. Domestic cotton prices bottomed out in first half of 2016 and followed with an upward trend since the second half of 2016. Crude oil prices also rebounded in the second half of 2016. Rising prices of raw materials translated into higher prices for the yarns products and market conditions have improved.

The price of cotton will continue to be influenced by various factors including climates, amounts of funds investing in commodities, demand from the textile industry and policies adopted by the PRC government. Oil prices will also be altered by global demand and supply and political situations in major oil producing countries. The fluctuation in prices of raw materials will result in prices change in yarn products. The Group will alleviate the impact from such fluctuations by managing its procurement and sales cycles and inventory level in order to minimize the risk.

The Group has initiated its upstream integration by establishing Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") with a designed annual production capacity of 30,000 tonnes of polyester staple fibres. Trial production commenced in November 2016 and has been progressing well.

In August 2016, the Company issued redeemable fixed coupon notes with a principal amount of HK$50,000,000 and a redeemable fixed coupon convertible bond in the principal amount of HK$110,000,000 to CCB International Overseas Limited. The net proceeds of approximately HK$159 million were used to repay a subsidiary's bond payable. This fundraising exercise has improved the capital structure of the Group.

Looking forward, the sluggish overseas demand and a softening domestic economy will continue to pose challenges to the textile industry in the PRC. The Group will uphold its commitment to developing its product portfolio whilst reinforcing sales and marketing effort to tap into new markets.

We are confident about the future taking into account the Group's enlarged product portfolio and economies of scale. We believe the Group is well positioned to benefit from any positive outlook in the textile industry.

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 (the "**Shareholders**") and various government bodies for their trust and support.

Zheng Hong
Chairman
Hong Kong, 24 March 2017

Management Discussion and Analysis

MARKET OVERVIEW

In 2016, the international economic conditions remained challenging. The United States (the "**US**") has witnessed signs of economic recovery but the economic outlook for the rest of the developed countries, including European countries, remained less auspicious. Affected by sluggish overseas demand, domestic over capacity and the adjustments resulting from the transition of the economy, the growth of the economy of the PRC continued to slow down. The gross domestic product ("**GDP**") growth rate of the PRC decreased from a Year on Year rate of 6.9% for 2015 to 6.7% in 2016.

After a drastic fall in the second half of 2015, international oil prices further plummeted to below US$30 per barrel in February 2016. Then oil prices rebounded in the second quarter of 2016 and hovered between US$45 per barrel and US$50 per barrel for most of the time in the second half of 2016. Recovery in prices of oil related raw materials translated into higher prices for polyester yarn products and the market conditions for polyester yarns products have improved accordingly.

Since the shift in the PRC's government national cotton temporary reserve policy in 2014, the domestic cotton prices in the PRC have been shifting lower. The domestic cotton futures prices once fell below the mark of RMB10,000 per tone in March 2016. However, as the PRC government launched its policy concerning output of national cotton reserve for 2015/16 in April 2016 and resumed the auction of national cotton reserve, the domestic cotton prices picked up and continued an upward trend for the second half of 2016. The rise in domestic cotton prices was due to several factors including the general low level of inventories in textile enterprises; slow auction output of national cotton reserve resulting from new public inspection requirement; unfavourable expectation of domestic cotton production and participation of speculation funds in the futures market. Higher prices of cotton increased translated into higher prices for cotton yarn products. Furthermore, the price gap between imported cotton and domestic cotton has been narrowing since the shift in the PRC's government national cotton temporary reserve policy. The narrowing price gap coupled with the depreciation of the Renminbi ("**RMB**") has led to an increase in the import price of cotton yarn and a decrease in its import volume, thereby contributing to a more favourable market for the domestic cotton yarn market.

BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with it subsidiaries, (the "**Group**") increased by 9.1% from approximately 112,165 tonnes for the year ended 31 December 2015 to approximately 122,351 tonnes for the year ended 31 December 2016. The production volume of yarn products of the Group increased by 4.8% from approximately 113,223 tonnes for the year ended 31 December 2015 to approximately 118,709 tonnes for the year ended 31 December 2016. The revenue of the Group increased by 10.2% to approximately RMB1,435.9 million for the year ended 31 December 2016 as compared to RMB1,302.8 million for the year ended 31 December 2015. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2016 were approximately RMB155.5 million and approximately RMB14.8 million, respectively.

Management Discussion and Analysis

Following the completion of the acquisition of Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ("**Huachun**") in 2015, the Group has rationalized its production capacities and further diversified its product portfolio by the introduction of viscose-cotton blended yarns and stretchable core viscose yarns.

In December 2014, the Group established a subsidiary company, Xinyuan in the Industrial Development Zone of Fengxin County of Jiangxi Province. At 31 December 2016, the total issued and paid up capital of Xinyuan is RMB70 million, of which the Group holds 51%. Xinyuan is engaged in the manufacture and trading of polyester staple fibres which are one of the basic raw materials of the Group for the production of polyester yarns. Xinyuan marks the Group's first step into upward vertical integration. The designed capacity of Xinyuan is 30,000 tonnes per annum. Xinyuan has commenced trial production in November 2016.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2016 was approximately RMB1,435.9 million, representing an increase of approximately RMB133.1 million, or 10.2%, as compared to the corresponding period last year. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2016 RMB'000		Year ended 31 December 2015 RMB'000	
Polyester yarns	**468,432**	**32.6%**	516,937	39.7%
Polyester-cotton and viscose-cotton blended yarns	**569,509**	**39.7%**	473,451	36.3%
Cotton yarns	**86,998**	**6.1%**	93,129	7.2%
Viscose and stretchable core viscose yarns	**112,634**	**7.8%**	14,202	1.1%
Grey and deep grey mélange yarns	**192,047**	**13.4%**	180,229	13.8%
Raw material	**6,322**	**0.4%**	24,851	1.9%
	1,435,942	**100.0%**	1,302,799	100.0%

The increase in the revenue of the Group for the year ended 31 December 2016 was mainly attributable to the increase in sales volume of yarn products from approximately 112,165 tonnes for the year ended 31 December 2015 to approximately 122,351 tonnes for the year ended 31 December 2016. The overall average selling price of yarn products of the Group increased by approximately 1.0% from approximately RMB11,615 per ton for the year ended 31 December 2015 to approximately RMB11,736 per ton for the year ended 31 December 2016.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB105.9 million for the year ended 31 December 2015 to approximately RMB155.5 million for the year ended 31 December 2016. The gross profit margin of the Group increased from approximately 8.1% for the year ended 31 December 2015 to approximately 10.8% for the year ended 31 December 2016. The increase in gross margin was mainly due to increase in sales and increase in gross profit margin. The increase in sales was mainly due to the substantial increase in sales volume attributable to viscose related yarn products. The increase in gross profit margin was mainly due to increase in the selling prices of the yarn products of the Group which were driven by the increase in prices of raw material in the second half of 2016, while the raw material utilized in the production were procured at lower prices in prior months.

Other Income

Other income of the Group decreased from approximately RMB23.8 million for the year ended 31 December 2015 to approximately RMB16.9 million for the year ended 31 December 2016, representing a decrease of approximately RMB6.9 million or 29.0%. The decrease in other income was mainly due to a reduction in government grant, partially offset by an increase in income from scrap sales.

Other Gains and Losses

Other losses for the year ended 31 December 2016 was approximately RMB18.6 million while other gains for the year ended 31 December 2015 was approximately RMB1.2 million. Other losses in 2016 were mainly due to i) fair value loss on the derivative component of the convertible bond issued by the Company in August 2016 of approximately RMB16.3 million, ii) net foreign exchange loss of approximately RMB3.5 million mainly arising from the year end re-translation of the liability component of convertible bond and the notes payable issued by the Company in August 2016 which are denominated in Hong Kong dollars. Those losses were partly offset by the realised gain on commodities futures contracts of approximately RMB1.3 million.

Distribution and Selling Expenses

Distribution and selling expenses of the Group remained about approximately the same at approximately RMB25.7 million for the year ended 31 December 2016 as compared to approximately RMB25.9 million for the year ended 31 December 2015. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.8% for the year ended 31 December 2016 (year ended 31 December 2015: 2.0%).

Administrative Expenses

Administrative expenses of the Group increased slightly to approximately RMB46.3 million for the year ended 31 December 2016 as compared to approximately RMB42.9 million for the year ended 31 December 2015, representing an increase of 7.9% or approximately RMB3.4 million. The increase was mainly due to administrative expenses attributable to the Xinyuan which became operational in 2016. Administrative expenses as a percentage of revenue of the Group was approximately 3.2% for the year ended 31 December 2016 (year ended 31 December 2015: 3.3%).

Finance Costs

Finance costs of the Group increased from approximately RMB51.8 million for the year ended 31 December 2015 to approximately RMB53.0 million for the year ended 31 December 2016, representing an increase of 2.3% or approximately RMB1.2 million. The increase in the Group's finance costs was mainly due to increase in interest on convertible bond and notes payable, substantially offset by decrease in interest on bank borrowings and bond payables.

Income Tax Expense

The Group's effective income tax rate for the year ended 31 December 2016 was approximately 55.6%, as compared to 14.5% for the corresponding period in 2015. The increase in effective income tax rate was mainly because i) there was a change in tax rate of a subsidiary in the PRC from 15% to 25% which affected the deferred tax liabilities with respect to the fair value adjustment of its Property, Plant and Equipment arising from the business combination in 2015 and ii) a subsidiary in the PRC had fully utilised its tax losses brought forward against the current year's assessable profit.

Profit attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company for the year ended 31 December 2016 was approximately RMB14.8 million, representing an increase of approximately RMB1.0 million, or 7.2%, as compared to that for the year ended 31 December 2015. The net profit margin of the Group for the year ended 31 December 2016 remained approximately the same at 1.0% as compared with 1.1% for the year ended 31 December 2015. The increases in the Group's net profit were mainly due to the increase in gross margin, partially offset by increase in other loss and income tax expenses.

Earnings per Share

The basic earnings per share of the Company for the year ended 31 December 2016 was approximately RMB1.19 cents, approximately the same as RMB1.10 cents for the year ended 31 December 2015. The increase in basic earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2016.

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 2016, net cash inflow from operating activities of the Group amounted to approximately RMB100 million (year ended 31 December 2015: RMB86.1 million). The Group had cash and bank balances of approximately RMB93.4 million (31 December 2015: RMB41.2 million), pledged bank deposits of approximately RMB 61.6 million (31 December 2015: RMB36.2 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2015: RMB20.1 million) at 31 December 2016. The Group's cash and bank balances were mainly held in Hong Kong Dollars and RMB.

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and Hong Kong dollars. At 31 December 2016, the Group's interest-bearing borrowings amounted to approximately RMB638.0 million (31 December 2015: RMB658.1 million), RMB504.7 million (79.1%) of which (31 December 2015: RMB575.1 million (87.4%)) 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 RMB763.4 million in aggregate (31 December 2015: RMB724.8 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities. The Group's notes payable and convertible bond were secured by 514,305,000 ordinary shares of the Company held by Popular Trend Holdings Limited ("**Popular Trend**"), a company wholly owned by an executive director of the Company and the cash maintained by Popular Trend under a collateral account, and is guaranteed by an executive director of the Company.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, notes payable, liability component of convertible bond, finance lease payables, bills payable, bond payables and consideration payables to total assets, was approximately 47.9% at 31 December 2016 (31 December 2015: 50.3%). Net current liabilities and net assets at 31 December 2016 was approximately RMB492.0 million (31 December 2015: RMB590.0 million) and approximately RMB493.5 million (31 December 2015: RMB463.6 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, restricted bank deposit, trade and other receivables, bills payable, notes payable, convertible bond, bank borrowings, finance lease payable and other payables, which mainly expose the Group to risk in Hong Kong Dollars and US Dollars. The Group had not used any financial instruments for hedging purposes during the year ended 31 December 2016. However, the Group will constantly assess the foreign exchange exposure it encounters so as to decide on the hedging policy required against the possible foreign exchange exposure that may arise.

Contingent Liabilities

At 31 December 2016, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

At 31 December 2016, the Group had a total of 3,287 employees (31 December 2015: 3,103). 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 2016, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

Management Discussion and Analysis

PROSPECTS

After a drastic fall in the first quarter of 2016, international crude oil prices and domestic cotton prices have followed an upward trend in the second half of 2016. Higher prices of raw materials translated into higher prices for yarn products. The continuing refinement of the cotton reserve policy by the PRC government continued to narrow the price gap between domestic cotton and overseas cotton. Also, the depreciation of the RMB in 2016 has increased the prices of imported yarn products. The above mentioned factors have improved the market conditions for domestic yarn manufacturers.

In 2016, the Group has further rationalised its production capacities and diversified its product portfolio by the introduction of viscose-cotton blended yarns and stretchable core viscose yarns. The Group has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of polyester staple fibres. Xinyaun has commenced trial production in November 2016.

Looking forward, the sluggish overseas demand and a softening domestic economy 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.

Report of the Directors

The Directors are pleased to present their report and the consolidated audited financial statements for the year ended 31 December 2016.

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 50 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 2016 and the financial position of the Group and the Company at that date are set out in the consolidated financial statements on pages 38 to 40 of this annual report and Note 48 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

On 1 March 2017, the Company issued a voluntary redemption notice to the noteholder of the HK$50,000,000 redeemable fixed coupon notes, to redeem all the outstanding principal and interest thereon on 31 March 2017 pending the consent from the noteholder and from the State Administration of Foreign Exchange of the PRC in respect thereof. The redemption is primarily funded by the Group's internal funds.

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 2016 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 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. Huachun has 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 2016, the Group had over 2,100 customers. The Group does not rely on a few large customers. During the year ended 31 December 2016, sales to the Group's five largest customers accounted for 12.6% of the total sales of the Group for 2016 and sales to the largest customer included therein accounted for 4.3% 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 2016, 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 44.2% of the total purchases of the Group for the year ended 31 December 2016 and purchases from the Group's largest supplier included therein accounted for 19.1% 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 2016.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years (including the year ended 31 December 2016) is set out on page 110 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 20 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company and the Group's share capital during the year are set out in Note 38 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.

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 ("**Shares**") during the year ended 31 December 2016.

FUND RAISING ACTIVITIES

On 9 August 2016, the Company issued redeemable fixed coupon notes in the principal amount of HK$50,000,000 (the "**Notes**") and a redeemable fixed coupon convertible bond in the principal amount of HK$110,000,000 which carries conversion rights to convert up to 227,000,000 conversion shares at the conversion price (being the initial price of HK$0.45 per conversion share which is subject to adjustment) (the "**Bond**") to CCB International Overseas Limited. The Notes and the Bond shall be repaid in full in August 2018, subject to early redemption under the terms of the Notes and the Bond. The proceeds from the Notes and the Bond were used to repay a subsidiary's bond payables.

Popular Trend, a controlling shareholder of the Company (the "**Mortgagor**") has entered into a share mortgage with CCB International Overseas Limited on 9 August 2016 in respect of a mortgage over 514,305,000 ordinary shares of HK$0.10 in the capital of the Company (the "**Mortgaged Shares**") held by the Mortgagor as continuing security for the Notes and the Bond. As at the date of this report, the Mortgaged Shares represent approximately 41.07% of the entire issued share capital of the Company.

Under the terms of the Notes and the Bond, it will be an event of default if Mr. Zheng Hong, an executive Director and a controlling shareholder of the Company, ceases to be a Director or ceases to be a controlling shareholder of the Company or ceases to have the power to direct the management and policies of the Company. If an event of default occurs, the Notes and the Bond will become due and payable immediately.

Details of the Notes and the Bond were set out in the Company's announcements dated 11 July 2016 and 9 August 2016 and Notes 34 and 35 to the consolidated financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2016, 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 RMB61.5 million.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2016, the Group did not make any charitable contribution.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, sales to the Group's five largest customers accounted for 12.6% of the total sales of the Group for 2016 and sales to the largest customer included therein amounted to 4.3% of the total sales of the Group for the same year.

Purchases from the Group's five largest suppliers accounted for 44.2% of the total purchases of the Group for the year ended 31 December 2016 and purchases from the Group's largest supplier included therein amounted to 19.1% 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.

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 (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

Mr. Nie Jianxin resigned as an independent non-executive Director and a member of each of the audit committee, the nomination committee and the remuneration committee of the Company with effect from 20 October 2016 due to his other business commitments. Mr. Nie confirmed that he has no disagreement with the Board and there is no other matter that needs to be brought to the attention of the Shareholders of the Company.

Pursuant to Articles 83(3) of the Articles, any Director appointed by the Board as an addition to the existing Board shall hold office until the next following general meeting of the Company and shall then be eligible for re-election.

As such, Mr. Xu Yiliang will retire from office as a Director at the forthcoming annual general meeting and will offer himself for re-election.

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 2017 (the "**Annual General Meeting**"), being eligible, will offer themselves for re-election.

As such, Mr. Zheng Yongxiang and Mr. Ng Wing Ka JP 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 31 to 33 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 2014 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 2014. 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 2014. 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 17 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 2016.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, 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	23,509,200 Shares	1.88%

Notes:

(1) These Shares are held by 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 2016, 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 the adoption of the Scheme. The remaining life of the Scheme is approximately 4.8 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 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2016, 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%
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%
CCB International Overseas Limited(4)	Security interest	Long position	514,305,000 Shares	41.07%
CCB International (Holdings) Limited(4)	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB Financial Holdings Limited(4)	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB International Group Holdings Limited(4)	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
China Construction Bank Corporation(4)	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
Central Huijin Investment Limited(4)	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB International Overseas Limited(5)	Beneficial owner	Long position	227,000,000 Shares	18.13%
CCB International (Holdings) Limited(5)	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB Financial Holdings Limited(5)	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB International Group Holdings Limited(5)	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
China Construction Bank Corporation(5)	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
Central Huijin Investment Limited(5)	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%

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.

4. For the purpose of Part XV of the SFO, Central Huijin Investment Limited (中央匯金投資有限責任公司) is deemed to be interested in the underlying Shares in respect of the security interest in the Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:

   4.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment Limited.

   4.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.

   4.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.

   4.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.

   4.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.

   4.6 Popular Trend, a controlling shareholder of the Company, mortgaged 514,305,000 Shares to CCB International Overseas Limited on 9 August 2016 as security for the HK$50,000,000 redeemable fixed coupon notes and HK$110,000,000 redeemable fixed coupon convertible bond issued by the Company on 9 August 2016.

5 For the purpose of Part XV of the SFO, Central Huijin Investment limited (中央匯金投資有限責任公司) is deemed to be interested in the underlying Shares in respect of the right to acquire Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:

   5.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment limited.

   5.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.

   5.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.

   5.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.

   5.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.

   5.6 The Company issued the HK$110,000,000 redeemable fixed coupon convertible bond to CCB International Overseas Limited which carries conversion rights to convert up to 227,000,000 conversion shares at the conversion price (being the initial price of HK$0.45 per conversion share which is subject to adjustment) on 9 August 2016.

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 2016.

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 2016 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 2016.

On 9 August 2016, the Company issued the Notes in the principal amount of HK$50,000,000 and the Bond in the principal amount of HK$110,000,000 to CCB International Overseas Limited. Popular Trend, the Mortgagor and a controlling shareholder of the Company, has entered into the Share Mortgage with CCB International Overseas Limited in respect of a mortgage over 514,305,000 Mortgaged Shares held by the Mortgagor as continuing security for the Notes and the Bond. As at the date of this report, the Mortgaged Shares represent approximately 41.07% of the entire issued share capital of the Company. Mr. Zheng Hong, an executive Director and the beneficial owner of the Mortgagor, has also provided a personal guarantee guaranteed for the Notes and the Bond.

In 2016, certain unsecured loans were borrowed from a connected party 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co., Limited ("**Jiangxi Baoyuan**")) ranging from RMB500,000 to RMB20,000,000. These loans had no security over the assets of the Group, were interest-free and fully repaid by the Group during the year ended 31 December 2016. 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.

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

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 45 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 2016.

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 provides 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 2016.

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 Wednesday, 31 May 2017 to Monday, 5 June 2017, 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 Monday, 29 May 2017.

AUDITOR

The consolidated financial statements for the two financial years ended 31 December 2014 and 2013 were audited by Deloitte Touche Tohmatsu. The consolidated financial statements for the two financial years ended 31 December 2016 and 2015 were audited by RSM Hong Kong.

The consolidated financial statements for the year ended 31 December 2016 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 auditors of the Company.

On behalf of the Board
Zheng Hong
Chairman
Hong Kong, 24 March 2017

Corporate Governance Report

The Board hereby presents this Corporate Governance Report for the year ended 31 December 2016.

A. CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2016, 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 2016.

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.

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 2014 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 2014. 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 2014. 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. Irons Sze BBS, JP

Independent Non-Executive Directors:
Mr. Ng Wing Ka JP
Ms. Zhang Baixiang
Mr. Xu Yiliang (appointed on 20 October 2016)
Mr. Nie Jianxin (resigned on 20 October 2016)

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 2016, 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	6	2	2	2	1
Executive Directors:					
Mr. Zheng Hong	6/6	2/2	2/2	–	1/1
Mr. Zheng Yongxiang	5/6	–	–	–	1/1
Non-Executive Director:					
Mr. Sze Irons BBS, JP	6/6	–	–	–	1/1
Independent Non-Executive Directors:					
Mr. Ng Wing Ka JP	6/6	2/2	2/2	1/2	1/1
Ms. Zhang Baixiang	6/6	2/2	2/2	2/2	1/1
Mr. Nie Jianxin (resigned on 20 October 2016)	5/5	2/2	2/2	2/2	1/1
Mr. Xu Yiliang (appointed on 20 October 2016)	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 2016, two meetings were held by the Remuneration Committee. The Remuneration Committee reviewed and approved the remuneration packages of the Directors and senior management. The Remuneration Committee also reviewed and approved the remuneration packages of Mr. Xu Yiliang, an independent non-executive Director appointed on 20 October 2016.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2016 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 16 and 17 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 2016, two meetings were 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. The Nomination Committee also reviewed the qualifications of Mr. Xu Yiliang and recommended his appointment as an independent non-executive Director.

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 2016, the Audit Committee had two meetings and performed the following work:

- Review of the annual financial results for the year ended 31 December 2015 and interim financial results for the six months ended 30 June 2016 and review of the accounting principles and practices adopted by the Group;
- Meeting and discussion with external auditors on matters arising from the annual audit of the financial statements of the Group;
- Review of report prepared by external auditors on matters arising from the annual audit of the financial statements of the Group;
- Review and discussion with the external auditors 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 2016 had been reviewed by the Audit Committee.

Training for Directors

During the year ended 31 December 2016, 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	A, C
Mr. Nie Jianxin (resigned on 20 October 2016)	A, C
Mr. Xu Yiliang (appointed on 20 October 2016)	C

A: attending training sessions organized by professional firms

B: attending training sessions required by the relevant professional bodies of which they are members

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

Company Secretary

Mr. Cheung Chi Fai, Frank, the Company Secretary of the Company, is a full time employee of the Group. During the year ended 31 December 2016, 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 recognizes 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.

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 2016, the Group had net current liabilities of approximately RMB492,015,000. 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 were authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB431,100,000 currently included in current liabilities at 31 December 2016.

  (ii) Undrawn banking facilities amounting to approximately RMB31,860,000.

  (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB15,000,000.

  (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 34 to 37.

Auditor's Remuneration

During the year ended 31 December 2016, the Group has incurred auditors' remuneration in respect of audit and non-audit services of approximately RMB857,000 and RMB180,000, 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 unauthorized 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 minimize 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 the 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 on 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 of the Company, 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 2016.

EXECUTIVE DIRECTORS

Zheng Hong (鄭洪), aged 41, was appointed as the chairman of our Company and an executive Director on 4 May 2011. Mr. Zheng Hong has over 16 years of experience in the textile industry. He is one of the founders of our Group and has been a director of Jiangxi Jinyuan, a subsidiary of the Group, since 2005. Mr. Zheng Hong was awarded as the China Textile Outstanding Labour (全國紡織工業勞動模範), a committee member of the Chinese Textile Products Technical Committee (中國棉紡織品技術委員會) and a standing committee member (常務理事) of the Chinese Cotton and Textile Industry Association (中國棉紡織行業協會) 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) in 2014 and has been elected as 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) in 2015. He 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 and was awarded a MBA degree by the Fudan University (復旦大學) in 2014. Mr. Zheng Hong is the younger brother of Mr. Zheng Yongxiang, an executive Director of the Company.

Zheng Yongxiang (鄭永祥), aged 48, was appointed as an executive Director on 4 May 2011. Mr. Zheng Yongxiang has over 15 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 the Jiangxi Yichun Municipal People's Congress (江西省宜春市人民代表大會). 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 55, 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) and Chevalier International Holdings Limited (stock code: 25) and an non-executive director of Bel Global Resources Holdings Limited (stock code: 761), these Companies are listed on the Main Board of the Stock Exchange. 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 a member of the National Committee and an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference, and is currently the Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. Mr. Sze was appointed the Justice of Peace and 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 47, was appointed as an independent non-executive Director on 3 December 2011. He is the partner of Tung, Ng, Tse & Heung Solicitors. He is now the legal adviser as to Hong Kong laws of the Foreign Economics and Trade Committee of the People's Government of Chongqing City (重慶市對外經濟貿易委員會) and Zhonghao Law Firm (中豪律師事務所) in Chongqing City, the PRC. Mr. Ng is also the vice president of The Chinese Manufacturers' Association of Hong Kong and 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, a company listed on the Main Board of the Stock Exchange (stock code: 346). 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 since September 1994.

Zhang Baixiang (張百香), aged 56, was appointed as an independent non-executive Director on 27 November 2014. Ms. Zhang has over 30 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 56, was appointed as an indepedent non-executive Director on 20 October 2016. Mr. Xu has over 35 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.

SENIOR MANAGEMENT

Liu Weimin (劉偉民), aged 47, 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 26 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 34, 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 11 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 54, was appointed as our Company's 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) and K.H. Group Holdings Limited (stock code: 1557), both companies are listed on the Main Board of the Stock Exchange of Hong Kong Limited. He has over 25 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 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, a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 547) 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, a company listed on the Stock Exchange (stock code: 128) from 1995 to 1999 and 1999 to 2000, respectively.

Independent Auditor's Report

RSM Hong Kong **中瑞岳華（香港）會計師事務所**

29th Floor, Lee Garden Two, 28 Yun Ping Road,
Causeway Bay, Hong Kong

香港銅鑼灣恩平道二十八號
利園二期二十九字樓

T +852 2598 5123
F +852 2598 7230

電話 +852 2598 5123
傳真 +852 2598 7230

www.rsmhk.com

www.rsmhk.com

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 Company Limited and its subsidiaries (the "**Group**") set out on pages 38 to 109, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, 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 2016, 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 Standard 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 RMB492,015,000 as at 31 December 2016. As stated in Note 2, these events or conditions indicate 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.

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 23 to the consolidated financial statements* As at 31 December 2016, the Group had goodwill of approximately RMB34,829,000 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 has concluded that there is no impairment of goodwill. This conclusion was based on the determination of the value in use of the cash-generating unit ("**CGU**") to which the goodwill is allocated. 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.	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 2016 annual report of China Weaving Materials Holdings Limited 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

24 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Revenue	9	**1,435,942**	1,302,799
Cost of sales		**(1,280,402)**	(1,196,908)
Gross profit		**155,540**	105,891
Other income	10	**16,896**	23,774
Other gains and losses	11	**(18,619)**	1,216
Gain from fire, net	12	**–**	5,513
Distribution and selling expenses		**(25,671)**	(25,858)
Administrative expenses		**(46,304)**	(42,874)
Finance costs	13	**(52,984)**	(51,800)
Profit before tax		**28,858**	15,862
Income tax expense	14	**(16,059)**	(2,305)
Profit and total comprehensive income for the year	15	**12,799**	13,557
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**14,846**	13,823
Non-controlling interests		**(2,047)**	(266)
		12,799	13,557
Earnings per share			
– Basic	19	**RMB1.19 cents**	RMB1.10 cents
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	20	**1,106,576**	1,084,908
Prepaid lease payments	21	**44,347**	45,434
Intangible asset	22	**67**	117
Deposits on acquisition of property, plant and equipment		**53**	17,561
Goodwill	23	**34,829**	34,829
Tax recoverable		**–**	8,938
Deferred tax assets	37	**2,465**	4,295
		1,188,337	1,196,082
Current assets			
Inventories	24	**137,153**	141,182
Trade and other receivables	25	**53,597**	54,298
Bills receivable	26	**12,614**	15,833
Prepaid lease payments	21	**1,090**	1,093
Tax recoverable		**–**	2,287
Pledged bank deposits	27	**61,571**	36,195
Restricted bank deposit	27	**500**	20,059
Cash and bank balances	27	**93,443**	41,182
		359,968	312,129
Current liabilities			
Trade and other payables	28	**233,792**	268,445
Bills payable	29	**52,148**	52,965
Deferred income	30	**227**	154
Finance lease payable	31	**4,125**	940
Bank borrowings	32	**498,729**	375,100
Bond payables	33	**–**	199,066
Notes payable	34	**705**	–
Liability component of convertible bond	35	**1,128**	–
Derivative component of convertible bond	35	**50,853**	–
Current tax liabilities		**10,276**	5,478
		851,983	902,148
Net current liabilities		**(492,015)**	(590,019)
Total assets less current liabilities		**696,322**	606,063

Consolidated Statement of Financial Position (Continued)

At 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Consideration payables	36	**42,963**	38,548
Deferred income	30	**7,937**	8,195
Finance lease payable	31	**–**	3,898
Bank borrowings	32	**20,260**	79,100
Notes payable	34	**44,729**	–
Liability component of convertible bond	35	**68,289**	–
Deferred tax liabilities	37	**18,600**	12,727
		202,778	142,468
Net assets		**493,544**	463,595
Capital and reserves			
Share capital	38	**101,989**	101,989
Reserves		**359,568**	344,722
Equity attributable to the owners of the Company		**461,557**	446,711
Non-controlling interests		**31,987**	16,884
Total equity		**493,544**	463,595

Approved by the Board of Directors on 24 March 2017 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 2016

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000 (Note 49(b)(i))	PRC statutory reserves RMB'000 (Note 49(b)(ii))	Special reserve RMB'000 (Note 49(b)(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At l January 2015	92,875	83,017	65,058	148,739	43,199	432,888	–	432,888
Profit/(Loss) and total comprehensive income for the year	–	–	–	–	13,823	13,823	(266)	13,557
Issue of bonus shares	9,114	(9,114)	–	–	–	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	17,150	17,150
At 31 December 2015 and at 1 January 2016	101,989	73,903	65,058	148,739	57,022	446,711	16,884	463,595
Profit/(Loss) and total comprehensive income for the year	–	–	–	–	14,846	14,846	(2,047)	12,799
Transfer	–	–	12,991	–	(12,991)	–	–	–
Capital contributions from non-controlling interests	–	–	–	–	–	–	17,150	17,150
At 31 December 2016	**101,989**	**73,903**	**78,049**	**148,739**	**58,877**	**461,557**	**31,987**	**493,544**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**28,858**	15,862
Adjustments for:			
Amortisation of deferred income	30	**(185)**	(154)
Amortisation of prepaid lease payments	21	**1,090**	1,091
Amortisation of intangible asset	22	**50**	50
Depreciation of property, plant and equipment	20	**56,300**	51,049
Loss on disposal of property, plant and equipment	11	**141**	24
Interest income	10	**(827)**	(1,524)
Fair value loss on derivative component of convertible bond	35	**16,279**	–
Interest expenses	13	**52,840**	51,701
Transaction costs relating to derivative component of convertible bond		**242**	–
Finance lease charges	13	**144**	99
Losses from fire	12	**–**	5,219
Net foreign exchange loss		**5,342**	–
Operating cash flows before movements in working capital		**160,274**	123,417
Decrease/(Increase) in inventories		**4,029**	(7,620)
Decrease/(Increase) in trade and other receivables		**701**	(34,982)
Decrease in bills receivable		**3,219**	27,776
(Decrease)/Increase in trade and other payables		**(34,593)**	29,891
Decrease in bills payable		**(817)**	(6,133)
Cash generated from operations		**132,813**	132,349
Finance lease charge (paid)/refund, net		**(145)**	258
Interest paid		**(39,969)**	(46,281)
Income tax refund/(paid), net		**7,667**	(225)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**100,366**	86,101
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(81,465)**	(57,718)
Withdrawal of pledged bank deposits		**56,089**	59,829
Interest received		**827**	1,524
Acquisition of a subsidiary		**–**	(134,451)
Purchase of property, plant and equipment		**(78,109)**	(37,771)
Decrease/(Increase) in deposits on acquisition of property, plant and equipment		**17,508**	(16,233)
Addition to prepaid lease payments		**–**	(192)
Government grant received		**–**	2,388
NET CASH USED IN INVESTING ACTIVITIES		**(85,150)**	(182,624)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions from non-controlling interests	**17,150**	17,150
Proceeds from bank borrowings	**592,415**	545,400
Repayment of bank borrowings	**(527,720)**	(562,485)
Proceeds from issuance of convertible bond	**94,567**	–
Payment for transaction costs relating to convertible bond	**(663)**	–
Proceeds from issuance of note instruments	**42,985**	–
Payment for transaction costs relating to note instruments	**(301)**	–
Repayment of finance lease payable	**(947)**	(9,011)
Repayment of bond payables	**(200,000)**	–
Decrease/(Increase) in restricted bank deposit	**19,559**	(20,038)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**37,045**	(28,984)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**52,261**	(125,507)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**41,182**	166,689
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**93,443**	41,182
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**93,443**	41,182

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 2016 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 all applicable 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 2016, the Group had net current liabilities of approximately RMB492,015,000. 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 were authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB431,100,000 currently included in current liabilities at 31 December 2016.

  (ii) Undrawn banking facilities amounting to approximately RMB31,860,000.

  (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB15,000,000.

  (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 of the Company 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS

(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 2016. Of these, the following amendments are relevant to the Group.

Amendments to IAS 1 Presentation of Financial Statements: Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify various presentation issues relating to:

- Assessment of materiality versus minimum disclosure requirements of a standard.
- Disaggregation of specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position. There is also new guidance on the use of subtotals.
- Confirmation that the notes do not need to be presented in a particular order.
- Presentation of other comprehensive income items arising from equity-accounted associates and joint ventures.

The amendments as mentioned above have no material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

(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 2016. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative	1 January 2017
Amendments to IAS 12 Income Taxes: Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

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

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

IFRS 9 Financial Instruments

The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

IFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS 39 are carried forward largely unchanged.

IFRS 9 substantially overhauls the hedge accounting requirements in IAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in IFRS 9 may result in the earlier recognition of impairment losses on the Group’s trade receivables and other financial assets measured at amortised costs. The Group is unable to quantify the impact until a more detailed assessment is completed.

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer

2. Identify the performance obligations in the contract

3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group is currently assessing the impacts of adopting IFRS 15 on the consolidated financial statements but is unable to estimate the impact of the new standard on the consolidated financial statements until a detailed analysis is completed.

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

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

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 financing leases.

The Group's Hong Kong office property lease is currently classified as 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 42, the Group's future minimum lease payments under non-cancellable operating leases for its office property amounted to approximately RMB83,000 at 31 December 2016. 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.

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. derivative component of convertible bond that is 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, an investment in a subsidiary is stated at cost less impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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	25–30 years
Leasehold improvement	3 years
Plant and machinery	5–20 years
Office Equipment	5–10 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 payable. 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) Other 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) 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 instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(i) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which 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.

(l) 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.

(m) 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.

(n) Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair value and are subsequently measured at the higher of:

– the amount of the obligations under the contracts, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

– the amount initially recognised less cumulative amortisation recognised in profit or loss on a straight-line basis over the terms of the guarantee contracts

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Convertible bond

A convertible bond which entitles the holder to convert the bond into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible bond based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

(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

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(r) Revenue recognition

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 risks 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 benefit 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Taxation (Continued)

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.

(w) Impairment of non-financial assets

The carrying amounts of 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 cash-generating unit 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 cash-generating unit.

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

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets (other than those at fair value through profit or loss) 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 (group of) financial asset(s) 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.

(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.

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. This estimate is 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 2016 was approximately RMB1,106,576,000 (2015: RMB1,084,908,000).

(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 RMB16,059,000 (2015: RMB2,305,000) of income tax expense 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 cash-generating unit 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 cash-generating unit 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 RMB34,829,000 (2015: RMB34,829,000).

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(d) Fair value of derivative component of convertible bond

As disclosed in Note 35 to the consolidated financial statements, the fair value of the derivative component of the convertible bond at the date of issue and the end of the reporting period were determined using binomial option pricing model. Application of binomial option pricing model requires the Group to estimate the prominent factors affecting the fair value, including but not limited to, the time to maturity of the derivative component, the expected volatility of the share prices of the Company and the discount rate. Where the estimation of these factors is different from those previously estimated, such differences will impact the fair value gain or loss on the derivative component in the period in which such determination is made.

The carrying amount of the derivative component of the convertible bond at 31 December 2016 was approximately RMB50,853,000.

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$**") and United States dollars ("**USD**"). 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 2016, if RMB had weakened 5 per cent against USD with all other variables held constant, consolidated profit after tax would have been approximately RMB390,000 (2015: RMB168,000) higher, arising mainly as a result of the foreign exchange gain on cash and bank balances and trade and other receivables (2015: cash and bank balances and trade and other receivables) denominated in USD. If RMB had strengthened 5 per cent against USD with all other variables held constant, consolidated profit after tax would have been approximately RMB390,000 (2015: RMB168,000) lower, arising mainly as a result of the foreign exchange loss on cash and bank balances and trade and other receivables (2015: cash and bank balances and trade and other receivables) denominated in USD.

6. FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

At 31 December 2016, if RMB had weakened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax would have been approximately RMB8,483,000 (2015: RMB203,000) lower, arising mainly as a result of the foreign exchange loss on convertible bond, notes payable, bank borrowings, finance lease payable and other payables (2015: finance lease payable 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 RMB8,483,000 (2015: RMB203,000) higher, arising mainly as a result of the foreign exchange gain on convertible bond, notes payable, bank borrowings, finance lease payable and other payables (2015: finance lease payable and other payables) denominated in HK$.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, bills receivable, restricted bank deposit, pledged bank deposits and cash and bank balances. In order to minimise credit risk, the directors have delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has concentrations of credit risk on the Group's trade receivables as over 90% (2015: 96%) of the customers are involved in clothing or textile industry and located in the PRC.

The credit risk on bills receivable, restricted bank deposit, pledged bank deposits and bank balances is limited because the counterparties are well-established banks in Hong Kong and the PRC.

(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 RMB492,015,000 (2015: RMB590,019,000) at 31 December 2016. Up to the date of these consolidated financial statements were authorised for issue, certain banks agreed to renew bank loans amounting to approximately RMB431,100,000, the Group had undrawn banking facilities of approximately RMB31,860,000 and subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB15,000,000. The Group relies on bank borrowings as a significant source 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 the internal financial resources 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.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Specifically, for bank borrowings and finance lease payable 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.

	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 2016				
Trade and other payables	**203,977**	**–**	**–**	**203,977**
Bills payable	**52,148**	**–**	**–**	**52,148**
Consideration payables	**10,421**	**45,799**	**–**	**56,220**
Finance lease payable	**4,125**	**–**	**–**	**4,125**
Bank borrowings	**512,978**	**7,801**	**14,200**	**534,979**
Convertible bond	**7,919**	**108,865**	**–**	**116,784**
Notes payable	**4,949**	**48,680**	**–**	**53,629**
	796,517	**211,145**	**14,200**	**1,021,862**
At 31 December 2015				
Trade and other payables	243,052	–	–	243,052
Bills payable	52,965	–	–	52,965
Consideration payables	6,852	3,569	45,799	56,220
Finance lease payable	1,082	1,082	3,067	5,231
Bond payables	211,700	–	–	211,700
Bank borrowings	389,268	23,626	65,083	477,977
	904,919	28,277	113,949	1,047,145

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 payable 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 2016				
Trade and other payables	**203,977**	**–**	**–**	**203,977**
Bills payable	**52,148**	**–**	**–**	**52,148**
Consideration payables	**10,421**	**45,799**	**–**	**56,220**
Finance lease payable	**1,151**	**1,151**	**2,133**	**4,435**
Bank borrowings	**504,613**	**10,171**	**20,953**	**535,737**
Convertible bond	**7,919**	**108,865**	**–**	**116,784**
Notes payable	**4,949**	**48,680**	**–**	**53,629**
	785,178	**214,666**	**23,086**	**1,022,930**
At 31 December 2015				
Trade and other payables	243,052	–	–	243,052
Bills payable	52,965	–	–	52,965
Consideration payables	6,852	3,569	45,799	56,220
Finance lease payable	1,082	1,082	3,067	5,231
Bond payables	211,700	–	–	211,700
Bank borrowings	389,268	23,626	65,083	477,977
	904,919	28,277	113,949	1,047,145

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, convertible bond, notes payable and consideration payables.

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

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk (Continued)

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

	2016 RMB'000	2015 RMB'000
Fixed rate financial liabilities		
Bank borrowings	**(400,037)**	(204,000)
Bond payables	**–**	(199,066)
Consideration payables	**(42,963)**	(38,548)
Liability component of convertible bond	**(68,289)**	–
Notes payable	**(44,729)**	–
Variable rate financial assets/(liabilities)		
Bank deposits	**144,283**	76,954
Bank borrowings	**(118,952)**	(250,200)
Finance lease payable	**(4,125)**	(4,838)

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 payable, 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 payable outstanding at the end of reporting period were outstanding for the whole year.

At 31 December 2016, if interest rates had been 50 basis points (2015: 50 basis points) higher, with all other variables held constant, consolidated profit after tax would have been increased by approximately RMB100,000 (2015: decreased by approximately RMB758,000). If the interest rate had been 50 basis points (2015: 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 RMB2,000 (2015: increased by approximately RMB824,000). 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 2016

	2016 RMB'000	2015 RMB'000
Financial assets:		
Loans and receivables (including bank deposits and cash balances)	**198,660**	148,077
Financial liabilities:		
Financial liabilities at amortised cost	**945,646**	1,001,320
Financial liabilities at fair value through profit or loss		
– Derivative component of convertible bond (classified as held for trading)	**50,853**	–

(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 categories 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) Disclosures of level in fair value hierarchy at 31 December 2016:

Description	Fair value measurement using Level 3 RMB'000
Recurring fair value measurements:	
Financial liabilities	
Financial liabilities at fair value through profit or loss	
– Derivative component of convertible bond	50,853

At 31 December 2015, no assets or liabilities were measured at fair values.

(b) Reconciliation of liabilities measured at fair value based on level 3:

The movements in the derivative component of convertible bond held at the end of the reporting period under level 3 fair value measurements during the year are presented in Note 35. Fair value adjustment on the derivative component of convertible bond is recognised and included in the line item "other gains and losses" on the face of the consolidated statement of profit or loss and other comprehensive income. All the losses recognised in profit or loss for the year arose from the derivative component of convertible bond held at the end of the reporting period.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016:

The Group's chief financial officer is responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. The chief financial officer reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the chief financial officer and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with recognised professional qualifications and recent experience to perform the valuations.

7. FAIR VALUE MEASUREMENTS (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2016: (Continued)

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Unobservable inputs (%)	Effect on fair value for increase of inputs	Fair value 2016 RMB'000 Liabilities
Derivative component of convertible bond	Binomial option pricing method	Discount rate	16.9%	Increase	**(50,853)**

The discount rate is determined by risk-free rate, credit spread and liquidity risk premium. The fair value measurement is positively correlated to the discount rate.

The fair value sensitivity regarding to the discount rate tends to be immaterial as the maturity date of the convertible bond is approaching.

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 2016, 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.

8. SEGMENT INFORMATION (Continued)

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 RMB'000	Staple Fibres RMB'000	Total RMB'000
Year ended 31 December 2016			
Revenue from external customers	**1,435,884**	**58**	**1,435,942**
Intersegment revenue	**–**	**2,018**	**2,018**
Interest income	**808**	**7**	**815**
Interest expense	**(52,840)**	**–**	**(52,840)**
Depreciation and amortisation	**(55,772)**	**(1,595)**	**(57,367)**
Profit/(Loss) of reportable segments	**31,063**	**(4,291)**	**26,772**
Year ended 31 December 2015			
Revenue from external customers	1,302,799	–	1,302,799
Interest income	1,455	61	1,516
Interest expense	(51,701)	–	(51,701)
Depreciation and amortisation	(51,912)	(178)	(52,090)
Other material items of income and expense:			
Loss from fire	(5,219)	–	(5,219)
Insurance claim income	10,732	–	10,732
Profit/(Loss) of reportable segments	3,276	(542)	2,734

8. SEGMENT INFORMATION (Continued)

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

	2016 RMB'000	2015 RMB'000
Revenue		
Total revenue of reportable segments	**1,437,960**	1,302,799
Elimination of intersegment revenue	**(2,018)**	–
Group's revenue	**1,435,942**	1,302,799
Profit or loss		
Total profit of reportable segments	**26,772**	2,734
Elimination of intersegment losses	**78**	–
Adjusted for income in relation to government grants	**4,724**	13,420
Unallocated (expense)/income:		
Other income, gains and losses	**(707)**	1,458
Administrative and other expenses	**(2,009)**	(1,750)
Taxation	**(16,059)**	(2,305)
Group's profit for the year	**12,799**	13,557

Geographical information

Over 99% (2015: 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 96% (2015: 96%) 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 2016 and 2015.

9. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2016 **RMB'000**	2015 RMB'000
Sales of finished goods	**1,429,620**	1,277,948
Sales of raw materials	**6,322**	24,851
	1,435,942	1,302,799

10. OTHER INCOME

	2016 **RMB'000**	2015 RMB'000
Interest income on bank deposits	**827**	1,524
Government grants (Note)	**4,724**	13,420
Income from scrap sales	**10,902**	7,399
Rental income	**408**	476
Others	**35**	955
	16,896	23,774

Note: For the year ended 31 December 2016, government grants mainly represented subsidies of approximately RMB4,539,000 (2015: RMB13,266,000) 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 RMB4,539,000 (2015: RMB13,266,000) was recognised in profit or loss when the grants were received. The remaining approximately RMB185,000 (2015: RMB154,000) were related to government grants to the Group for land use rights and deed tax which were amortised on a straight-line basis over the life of the corresponding land use rights.

11. OTHER GAINS AND LOSSES

	2016 **RMB'000**	2015 RMB'000
Fair value loss on derivative component of convertible bond	**(16,279)**	–
Net foreign exchange (loss)/gain	**(3,505)**	984
Loss on disposal of property, plant and equipment	**(141)**	(24)
Realised gain on financial assets at fair value through profit and loss	**1,306**	256
	(18,619)	1,216

12. GAIN FROM FIRE, NET

During the year ended 31 December 2014, losses on inventories, and property, plant and equipment of approximately RMB12,409,000 and RMB38,515,000 respectively were recognised due to a fire broken out at the warehouse of the completed Phase III of the production bases of the Group situated at Fengxin County, Yichun City, Jiangxi, the PRC on 31 December 2014, causing damage primarily to certain inventories, plant and machinery and part of the building premises.

During the year ended 31 December 2015, the Group further wrote off certain damaged part of the building premises of approximately RMB5,219,000 by reference to the safety inspection and assessment of the building structure. In 2015, the Group received and recognised the insurance claim income of approximately RMB10,732,000 for the losses in connection with the above fire accident. The gain incurred as a result of the fire accident are summarised as follows:

	2016 **RMB'000**	2015 RMB'000
Loss on property, plant and equipment	**–**	(5,219)
Insurance claim income	**–**	10,732
	–	5,513

13. FINANCE COSTS

	2016 **RMB'000**	2015 RMB'000
Interest on bank borrowings	**25,115**	30,682
Interest on bond payables	**12,634**	16,845
Interest on consideration payables	**4,356**	4,174
Interest on convertible bond	**8,790**	–
Interest on notes payable	**1,945**	–
Finance leases charges	**144**	99
	52,984	51,800

14. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the year	**7,741**	–
Over-provision in current year	**615**	–
Under-provision in prior year	**–**	68
	8,356	68
Deferred tax (Note 37)		
Reversal of temporary differences	**2,034**	2,237
Impact of change in tax rate	**5,669**	–
	7,703	2,237
Total	**16,059**	2,305

No provision for Hong Kong Profits Tax for the years ended 31 December 2016 and 2015 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, a subsidiary, has been recognised as a state-encouraged high-new technology enterprise from 2014, and the status is valid for a period of three years. Jiangxi Jinyuan is thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2016 and 2015.

Huachun, a subsidiary, had been recognised as a state-encouraged high-new technology enterprise from 2013 to 2015 and was thus entitled to a preferential tax rate of 15% in 2013, 2014 and 2015. The status was expired during the year. Therefore, the EIT of Huachun is provided at a rate of 25% for the year ended 31 December 2016. As a result, the Group's deferred tax liabilities increased by approximately RMB5,669,000 in 2016.

Xinyuan, a subsidiary, is subject to the EIT tax 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.

14. INCOME TAX EXPENSE (Continued)

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.

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:

	2016 **RMB'000**	2015 RMB'000
Profit before tax	**28,858**	15,862
Tax at the applicable rates in the jurisdictions concerned	**4,760**	2,309
Tax effect of income not taxable for tax purpose	**(22)**	(3,260)
Tax effect of expenses not deductible for tax purpose	**2,597**	3,750
Tax effect of temporary differences not recognised	**177**	(5,393)
Tax effect of unused tax losses not recognised	**1,980**	2,896
Over-provision in current year	**615**	–
Under-provision in prior year	**–**	68
Effect of different tax rate	**(526)**	–
Withholding tax arising from undistributed profits of Jiangxi Jinyuan	**809**	1,935
Remeasurement of deferred tax – change in tax rate	**5,669**	–
Income tax expense for the year	**16,059**	2,305

15. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
The Group's profit for the year is stated after charging the following:		
Auditor's remuneration		
– Audit	**857**	813
– Others	**180**	163
	1,037	976
Operating lease charges		
– Amortisation of prepaid lease payments	**1,090**	1,091
– Land and buildings	**474**	440
Amortisation of intangible asset (included in administrative expenses)	**50**	50
Cost of inventories sold	**1,280,402**	1,196,908
Depreciation	**56,300**	51,049

Cost of inventories sold includes employee benefits expense and depreciation of approximately RMB146,668,000 (2015: RMB135,675,000) and RMB46,294,000 (2015: RMB40,962,000), respectively, which are included in the amounts disclosed separately above and in Note 16.

16. EMPLOYEE BENEFITS EXPENSE

	2016 RMB'000	2015 RMB'000
Employee benefits expense (excluding directors' emoluments):		
Salaries, bonuses and allowances	**154,937**	140,420
Retirement benefit scheme contributions	**3,218**	4,117
	158,155	144,537

Five highest paid individuals:

The five highest paid individuals in the Group during the year included two (2015: three) directors (one director is also the Company's chief executive) whose emoluments are reflected in the analysis presented in Note 17. The emoluments of the remaining three (2015: two) individuals are set out below:

	2016 RMB'000	2015 RMB'000
Basic salaries and allowances	**1,405**	1,038
Retirement benefit scheme contributions	**41**	34
	1,446	1,072

16. EMPLOYEE BENEFITS EXPENSE (Continued)

	Number of individuals 2016 RMB'000	2015 RMB'000
The emoluments fell within the following band:		
Nil to HK$1,000,000 (equivalent to approximately RMB857,000)	**3**	2

17. 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	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of directors				
Executive directors				
– Mr. Zheng Hong	**–**	**1,286**	**15**	**1,301**
– Mr. Zheng Yongxiang	**–**	**1,033**	**21**	**1,054**
Non-executive director				
– Mr. Sze Irons BBS, JP	**129**	**–**	**–**	**129**
Independent non-executive directors				
– Mr. Ng Wing Ka JP	**129**	**–**	**–**	**129**
– Mr. Nie Jianxin (resigned on 20 October 2016)	**103**	**–**	**–**	**103**
– Mr. Xu Yiliang (appointed on 20 October 2016)	**25**	**–**	**–**	**25**
– Ms. Zhang Baixiang	**129**	**–**	**–**	**129**
Total for 2016	**515**	**2,319**	**36**	**2,870**

17. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Name of directors				
Executive directors				
– Mr. Zheng Hong	–	1,188	20	1,208
– Mr. Zheng Yongxiang	–	943	20	963
Non-executive director				
– Mr. Sze Irons BBS, JP	122	–	–	122
Independent non-executive directors				
– Mr. Ng Wing Ka JP	122	–	–	122
– Mr. Nie Jianxin	122	–	–	122
– Ms. Zhang Baixiang	122	–	–	122
Total for 2015	488	2,131	40	2,659

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 2016 and 2015.

(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.

18. DIVIDENDS

The Board of Directors of the Company does not recommend any dividend in respect of the years ended 31 December 2016 and 2015.

19. EARNINGS PER SHARE

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

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 (2015: 1,252,350,000) in issue during the year.

	2016	2015
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	**14,846**	13,823

	2016	2015
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,252,350**	1,252,350

As the conversion of the outstanding convertible bond (Note 35) into ordinary shares for the year ended 31 December 2016 would be anti-dilutive (2015: no potential dilutive shares outstanding), no diluted earnings per share was presented in both years.

20. 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 2015	282,462	342	366,182	2,815	7,136	19,505	678,442
Acquisition of a subsidiary	309,100	–	206,900	5,100	1,400	36,550	559,050
Additions	360	–	11,578	261	393	–	12,592
Construction expenditure capitalised	–	–	–	–	–	30,170	30,170
Disposals	–	–	(7)	(218)	(6)	–	(231)
Write off due to fire loss	(5,447)	–	–	–	–	–	(5,447)
Transfer from construction in progress	–	–	68,981	–	–	(68,981)	–
At 31 December 2015 and 1 January 2016	586,475	342	653,634	7,958	8,923	17,244	1,274,576
Additions	135	–	7,475	57	223	–	7,890
Construction expenditure capitalised	–	–	–	–	–	70,219	70,219
Disposals	–	–	(1,147)	(66)	(198)	–	(1,411)
Transfer from construction in progress	42,316	–	45,147	–	–	(87,463)	–
At 31 December 2016	628,926	342	705,109	7,949	8,948	–	1,351,274
ACCUMULATED DEPRECIATION							
At 1 January 2015	35,975	314	98,242	1,321	3,202	–	139,054
Charge for the year	18,359	28	30,711	845	1,106	–	51,049
Disposals	–	–	(6)	(196)	(5)	–	(207)
Write off due to fire loss	(228)	–	–	–	–	–	(228)
At 31 December 2015 and 1 January 2016	54,106	342	128,947	1,970	4,303	–	189,668
Charge for the year	19,239	–	35,018	933	1,110	–	56,300
Disposals	–	–	(1,033)	(59)	(178)	–	(1,270)
At 31 December 2016	73,345	342	162,932	2,844	5,235	–	244,698
CARRYING AMOUNT							
At 31 December 2016	**555,581**	**–**	**542,177**	**5,105**	**3,713**	**–**	**1,106,576**
At 31 December 2015	532,369	–	524,687	5,988	4,620	17,244	1,084,908

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At 31 December 2016, the carrying amount of property, plant and equipment pledged as security for the Group's bills payable and bank borrowings amounted to approximately RMB668,042,000 (2015: security for the Group's bills payable, bank borrowings and bond payables amounted to approximately RMB645,906,000).

At 31 December 2016, the carrying amount of property, plant and equipment held by the Group under finance lease amounted to approximately RMB5,754,000 (2015: RMB6,026,000).

21. PREPAID LEASE PAYMENTS

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

	2016 RMB'000	2015 RMB'000
At beginning of year	**46,527**	34,887
Acquisition of a subsidiary	**–**	12,539
Additions	**–**	192
Amortisation of prepaid land lease payments	**(1,090)**	(1,091)
At end of the year	**45,437**	46,527
Current portion	**(1,090)**	(1,093)
Non-current portion	**44,347**	45,434

At 31 December 2016, prepaid lease payments in relation to land use rights in Yichun City, Jiangxi Province, the PRC with carrying amount of approximately RMB28,003,000 have been pledged as security for the Group's bank borrowings (2015: RMB36,717,000 pledged as security for the Group's bank borrowings and bond payables).

22. INTANGIBLE ASSET

	Patent RMB'000
COST	
At 1 January 2015	–
Acquisition of a subsidiary	167
At 31 December 2015 and 31 December 2016	167
ACCUMULATED AMORTISATION	
At 1 January 2015	–
Amortisation for the year	50
At 31 December 2015	50
Amortisation for the year	50
At 31 December 2016	100
CARRYING AMOUNT	
At 31 December 2016	**67**
At 31 December 2015	117

23. GOODWILL

	2016 RMB'000	2015 RMB'000
Cost		
At beginning of the year	**34,829**	–
Arising on acquisition of a subsidiary	**–**	34,829
At end of the year	**34,829**	34,829

23. GOODWILL (Continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating unit ("**CGU**") that is expected to benefit from that business combination. The carrying amount of goodwill was allocated as follow:

	2016 RMB'000	2015 RMB'000
Sales of yarns:		
Huachun	**34,829**	34,829

The recoverable amount of the CGU of Huachun 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% (2015: 3%). 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 15.17% (2015: 15.43%).

The recoverable amount of the CGU of Huachun calculated based on the value in use exceeded the carrying amount by approximately RMB14,382,000. If an annual sales price increase rate adjusted to 2.48%, a gross margin adjusted to 12.12% or a rise in discount rate to 15.58%, all changes taken in isolation, would remove the remaining headroom.

24. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**68,669**	42,079
Work in progress	**17,954**	13,773
Finished goods	**50,530**	85,330
	137,153	141,182

25. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**17,360**	30,717
Advance payment to suppliers	**18,400**	10,753
Prepayments and other receivables	**14,428**	5,177
Value-added tax recoverable	**3,409**	7,651
	53,597	54,298

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.

	2016 RMB'000	2015 RMB'000
0 – 30 days	**15,045**	26,166
31 – 90 days	**2,139**	3,872
Over 90 days	**176**	679
	17,360	30,717

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 RMB2,369,000 (2015: RMB4,551,000) at 31 December 2016 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.

25. TRADE AND OTHER RECEIVABLES (Continued)

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

	2016 RMB'000	2015 RMB'000
Up to 90 days	**2,211**	4,551
Over 90 days	**158**	–
Total	**2,369**	4,551

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

	2016 RMB'000	2015 RMB'000
USD	**1,656**	3,591
RMB	**15,704**	27,126
Total	**17,360**	30,717

26. BILLS RECEIVABLE

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	**4,679**	4,490
31 – 60 days	**3,417**	1,560
61 – 90 days	**2,416**	4,121
91 – 120 days	**400**	2,000
121 – 150 days	**580**	2,535
Over 150 days	**1,122**	1,127
	12,614	15,833

Included in bills receivable at 31 December 2016 was an amount of approximately RMB11,673,000 (31 December 2015: RMB14,645,000) 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.

26. BILLS RECEIVABLE (Continued)

	Bills receivable endorsed to suppliers with full recourse	
	2016	2015
	RMB'000	RMB'000
Carrying amount of recognised financial assets	**11,673**	14,645
Carrying amount of corresponding liabilities not set-off	**(11,673)**	(14,645)

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

	2016	2015
	RMB'000	RMB'000
Pledged bank deposits	**61,571**	36,195
Restricted bank deposit	**500**	20,059
Cash and bank balances	**93,443**	41,182
	155,514	97,436

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

	2016	2015
Pledged bank deposits	**0.01% – 1.50%**	0.01% – 1.30%
Restricted bank deposit	**0.35%**	–
Cash and bank balances	**0.01% – 0.54%**	0.01% – 0.35%

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

	2016	2015
	RMB'000	RMB'000
HK$	**11,390**	652
USD	**7,550**	3,508
RMB	**136,574**	93,276
	155,514	97,436

The Group's pledged bank deposits represent deposits pledged to banks to secure bills payable, finance lease payable and bank borrowings of the Group as set out in Notes 29, 31 and 32.

27. PLEDGED BANK DEPOSITS/RESTRICTED BANK DEPOSIT/CASH AND BANK BALANCES (Continued)

The Group's restricted bank deposit represents minimum requirement of deposit placed in a designated bank account. In 2015, the Group's restricted bank deposit represents deposit placed in a designated bank account, the use of which is restricted for the repayment of bond principal and interest as set out in Note 33.

At 31 December 2016, the pledged bank deposits, restricted bank deposit, cash and bank balances of the Group's PRC subsidiaries denominated in RMB amounted to approximately RMB136,574,000 (2015: RMB91,263,000). 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.

28. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**62,934**	107,758
Other payables	**7,932**	12,110
Other tax payables	**16,879**	10,786
Accrued for salaries and wages	**16,532**	14,153
Other accrued charges	**74,715**	71,095
Payables for acquisition of property, plant and equipment	**24,742**	10,907
Deposits from customers	**21,222**	16,741
Dividend payables	**243**	243
Withholding tax payable (Note 39)	**–**	16,000
Consideration payables (Note 36)	**8,593**	8,652
	233,792	268,445

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:

	2016 RMB'000	2015 RMB'000
0 – 30 days	**47,683**	53,863
31 – 90 days	**10,452**	50,205
Over 90 days	**4,799**	3,690
	62,934	107,758

In general, the Group makes advance payment to suppliers before the materials 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.

29. BILLS PAYABLE

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	**9,029**	4,415
31 – 90 days	**25,540**	14,110
Over 90 days	**17,579**	34,440
	52,148	52,965

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

	2016 RMB'000	2015 RMB'000
USD	**9,899**	3,714
RMB	**42,249**	49,251
	52,148	52,965

30. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Government grants	**8,164**	8,349
Analysed as:		
Current liabilities	**227**	154
Non-current liabilities	**7,937**	8,195
	8,164	8,349

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.

30. DEFERRED INCOME (Continued)

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 RMB185,000 (2015: RMB154,000). At 31 December 2016, an aggregate carrying amount of RMB8,164,000 (2015: RMB8,349,000) remains to be amortised.

31. FINANCE LEASE PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,151**	1,082	**1,015**	940
In the second to fifth years, inclusive	**–**	4,149	**–**	3,898
In the second to fifth years, inclusive but contains a repayment on demand clause	**3,284**	–	**3,110**	–
	4,435	5,231	**4,125**	4,838
Less: Future finance charges	**(310)**	(393)	**N/A**	N/A
Present value of lease obligations	**4,125**	4,838	**4,125**	4,838
Less: Portion of amount contains a repayment on demand clause or due for settlement within 12 months (shown under current liabilities)			**(4,125)**	(940)
Amount due for settlement after 12 months			**–**	3,898

It is the Group's policy to lease certain of its plant and machinery under finance lease. The lease term is 5 years. At 31 December 2016, the effective borrowing rate was 3.5% (2015: 3.2%). Interest rate is arranged at floating rate 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 term, the Group has the option to purchase the plant and machinery at nominal prices.

The finance lease payable is denominated in HK$.

32. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank loans		
– Secured	**411,218**	373,200
– Unsecured	**105,798**	81,000
Trust receipt loans		
– Secured	**1,973**	–
	518,989	454,200

	2016 RMB'000	2015 RMB'000
The borrowings are repayable as follows:		
Within one year	**490,090**	359,100
More than one year, but not exceeding two years	**6,920**	19,000
More than two years, but not more than five years	**13,340**	60,100
	510,350	438,200
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**8,639**	–
Carrying amount of bank loan that is repayable on demand due to breach of financial covenants (shown under current liabilities)	**–**	16,000
	518,989	454,200
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(498,729)**	(375,100)
Amount due for settlement after 12 months	**20,260**	79,100

At 31 December 2016, certain assets of the Group have been pledged as collateral for secured bank borrowings (Note 44).

32. BANK BORROWINGS (Continued)

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

	2016 RMB'000	2015 RMB'000
HK$	**10,799**	–
USD	**1,973**	–
RMB	**506,217**	454,200
Total	**518,989**	454,200

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

	2016	2015
Interest rate:		
Bank loans		
– Fixed-rate borrowings	**3.55% – 7.20%**	4.50% – 7.20%
– Variable-rate borrowings	**2.75% – 7.40%**	4.60% – 8.29%
Trust receipt loans		
– Variable-rate borrowings	**2.52%**	N/A

Bank loans of approximately RMB400,037,000 (2015: RMB204,000,000) 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 2016.

33. BOND PAYABLES

In 2013, Shenzhen Stock Exchange approved Huachun's application for the Small and Medium-sized Enterprises pilot programme for the issue of private placement bonds. On 26 September 2013, Huachun issued the private placement bonds, listed on Shenzhen Stock Exchange, in the principal amount of RMB200,000,000 (the "**Bonds**"). The Bonds, due on 25 September 2016, are interest-bearing at 7.8% per annum and interests are payable quarterly in arrears. The Bonds are secured by certain Huachun's property, plant and equipment, land use rights classified under prepaid lease payments and buildings thereon; and are guaranteed by a related party (a close family member of the executive directors of the Company).

The Bonds were fully settled during 2016.

34. NOTES PAYABLE

	2016 **RMB'000**	2015 RMB'000
Issuance of notes	**42,985**	–
Transaction costs	**(301)**	–
Interest charged	**1,945**	–
Interest paid	**(1,213)**	–
Exchange difference	**2,018**	–
At 31 December	**45,434**	–
Analysed as:		
Current liabilities (being accrued interests)	**705**	–
Non-current liabilities	**44,729**	–
	45,434	–

On 9 August 2016, the Company issued HK$50,000,000 redeemable fixed coupon notes (the "**Note Instruments**") to an independent third party with a maturity of 2 years due on 8 August 2018. The Note Instruments are denominated in Hong Kong dollars and bear coupon interest rate of 11% per annum payable quarterly in arrears.

The effective interest rate of the Note Instruments is 11.9% per annum.

The fair value of the notes payable at 31 December 2016 is approximately RMB42,598,000. This fair value is determined on the basis of discounting the future cash flows at the market interest rate of 16.9% per annum (level 3 fair value measurements) as assessed by independent professional valuer and approved by the directors.

The Note Instruments are secured by 514,305,000 ordinary shares of the Company held by Popular Trend Holdings Limited ("**Popular Trend**"), a company wholly owned by an executive director of the Company and the cash maintained by Popular Trend under a collateral account, and is guaranteed by an executive director of the Company.

35. CONVERTIBLE BOND

On 9 August 2016, the Company issued a redeemable fixed coupon convertible bond (the "**Convertible Bond**") with a principal amount of HK$110,000,000. The Convertible Bond is denominated in Hong Kong dollars at coupon interest rate of 8% per annum payable quarterly in arrears and has a maturity period of 24 months from the Convertible Bond issue date to 8 August 2018.

The Convertible Bond entitled the bondholder to convert the outstanding amount of bond together with accrued interests into new ordinary shares of the Company, at a conversion price of HK$0.45 (subject to any anti-dilutive adjustments) up to a maximum of 227,000,000 ordinary shares. Any conversion exceeds 277,000,000 ordinary shares would be settled in cash. Any outstanding principal amount of the Convertible Bond not converted into ordinary shares will be redeemed on 8 August 2018 at a premium which makes up for an annualised internal rate of return of 10% on the face value of such portion of the Convertible Bond on the final maturity date.

The proceeds received from the issue of the Convertible Bond comprise two elements and were accounted for as follows:

- The debt element was treated as a financial liability and measured at amortised cost and interest expense was recognised in profit or loss using the effective interest method.

- The share conversion option element was treated as a derivative liability with subsequent changes in fair value being recognised in profit or loss.

The movements of the liability component and derivative component of the Convertible Bond for the year since issuance are set out below:

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
Issuance of the Convertible Bond	59,993	34,574	94,567
Transaction costs	(421)	–	(421)
Interest charged	8,790	–	8,790
Interest paid	(1,941)	–	(1,941)
Fair value loss	–	16,279	16,279
Exchange difference	2,996	–	2,996
At 31 December 2016	**69,417**	**50,853**	**120,270**
Analysed as:			
Current liabilities (being accrued interests)	1,128	50,853	51,981
Non-current liabilities	68,289	–	68,289
	69,417	50,853	120,270

The interest charged for the year is calculated by applying an effective interest rate of 41.6% per annum to the liability component.

35. CONVERTIBLE BOND (Continued)

The fair value of the liability component of the Convertible Bond at 31 December 2016 is approximately RMB92,234,000. This fair value has been calculated by discounting the future cash flows at the market interest rate of 16.9% (level 3 fair value measurements) as assessed by an independent professional valuer and approved by the directors.

The derivative component is measured at its fair value at the date of issue and at the end of each reporting period. The fair value is estimated using binomial option pricing model. The key assumptions used are as follows:

	31 December 2016	**Date of issue**
Share price	**HK$0.60**	HK$0.54
Exercise price	**HK$0.45**	HK$0.45
Expected volatility	**57.2%**	34.3%
Expected life	**1.6 years**	2 years
Discount rate	**16.9%**	14.6%
Expected dividend yield	**Nil**	Nil
Coupon rate (annual)	**8.0%**	8.0%

The Convertible Bond is secured by 514,305,000 ordinary shares of the Company held by Popular Trend and the cash maintained by Popular Trend under a collateral account, and is guaranteed by an executive director of the Company.

36. CONSIDERATION PAYABLES

	2016 RMB'000	2015 RMB'000
Consideration payables for the acquisition of Huachun	**51,556**	47,200
Analysed as:		
Current liabilities (Note 28)	**8,593**	8,652
Non-current liabilities	**42,963**	38,548
	51,556	47,200

The consideration payables represent the outstanding consideration payables to the former Huachun shareholders at amortised cost at the end of the reporting period. The consideration payables are unsecured, interest-bearing at 8% per annum and will be due on 5 January 2018. Accrued interests are classified as current liabilities.

The directors estimate the fair value of the consideration payables at 31 December 2016 to be approximately RMB54,067,000 (2015: RMB51,785,000). This fair value has been calculated by discounting the future cash flows at the market rate of 4.75% (2015: 4.75%) (level 2 fair value measurements).

37. 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 liabilities

	Fair value adjustments on business combination RMB'000	Undistributed earnings of the PRC subsidiary RMB'000	Total RMB'000
At 1 January 2015	–	2,299	2,299
Acquisition of a subsidiary	8,768	–	8,768
(Credit)/Charge to profit or loss (Note 14)	(275)	1,935	1,660
At 31 December 2015 and 1 January 2016	8,493	4,234	12,727
Charge to profit or loss (Note 14)	5,064	809	5,873
At 31 December 2016	**13,557**	**5,043**	**18,600**

Deferred tax assets

	Deductible tax depreciation RMB'000	Tax losses RMB'000	Losses from fire RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	–	–	2,214	–	2,214
Acquisition of a subsidiary	2,658	–	–	–	2,658
(Charge)/Credit to profit or loss (Note 14)	(97)	1,558	(2,214)	176	(577)
At 31 December 2015 and 1 January 2016	2,561	1,558	–	176	4,295
Charge to profit or loss (Note 14)	(96)	(1,558)	–	(176)	(1,830)
At 31 December 2016	**2,465**	**–**	**–**	**–**	**2,465**

37. DEFERRED TAX (Continued)

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 2016 and 2015, 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 RMB45,316,000 (2015: RMB47,002,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses of approximately RMB45,316,000 (2015: RMB36,613,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB40,504,000 (2015: RMB34,109,000) that will expire after 5 years from the year of assessment they related to. Other tax losses may be carried forward indefinitely.

38. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2015 and 31 December 2016	10,000,000	1,000,000

	Number of Shares '000	HK$'000	RMB'000
Issued and fully paid:			
At 1 January 2015	1,138,500	113,850	92,875
Issue of bonus shares (Note)	113,850	11,385	9,114
At 31 December 2015 and 31 December 2016	**1,252,350**	**125,235**	**101,989**

Note: Pursuant to the approval of the shareholders at the annual general meeting of the Company on 28 May 2015, 113,850,000 ordinary shares of the Company at HK$0.1 each were issued as bonus shares to the qualifying shareholders whose names are shown on the register of members of the Company on 8 June 2015 on a ten-to-one basis, by way of capitalisation of a portion of the share premium account of the Company on 23 June 2015.

38. 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 bank borrowings, bond payables, notes payable, convertible bond and finance lease payable, 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 2016 and at 31 December 2015 was as follows:

	2016 **RMB'000**	2015 RMB'000
Total debts	**688,818**	658,104
Less: Cash and cash equivalents	**(93,443)**	(41,182)
Net debts	**595,375**	616,922
Equity attributable to owners of the Company	**461,557**	446,711
Net debts and equity attributable to owners of the Company	**1,056,932**	1,063,633

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, 33, 34 and 35; 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.

39. ACQUISITION OF A SUBSIDIARY IN 2015

On 6 January 2015, the Group acquired 100% equity interest in Huachun for a cash consideration of RMB200,000,000. Huachun was engaged in manufacturing and trading of polyester yarns, and grey and deep grey mélange yarns. Huachun was acquired to enhance the Group's position as the leading yarn manufacturer in Jiangxi Province.

The fair value of the identifiable assets and liabilities of Huachun acquired at its date of acquisition is as follows:

Net assets acquired:	RMB'000
Property, plant and equipment	559,050
Prepaid lease payments	12,539
Intangible asset	167
Secured deposits for finance lease payable	4,090
Deposits on acquisition of property, plant and equipment	365
Deferred tax asset	2,658
Inventories	53,202
Trade and other receivables	1,639
Bills receivable	33,303
Pledged bank deposits	31,602
Restricted bank deposit	21
Cash and bank balances	5,549
Current tax assets	11,225
Trade and other payables	(122,542)
Bills payable	(33,742)
Finance lease payable	(12,591)
Bank borrowings	(175,750)
Bond payables	(197,820)
Deferred tax liabilities	(8,768)
	164,197
Goodwill	34,829
	199,026
Satisfied by:	
Cash	140,000
Consideration payables	59,026
Total consideration	199,026
Net cash outflow arising on acquisition:	
Cash consideration paid	140,000
Cash and cash equivalents acquired	(5,549)
	134,451

39. ACQUISITION OF A SUBSIDIARY IN 2015 (Continued)

The consideration payables are unsecured and interest-bearing at 8% per annum. The fair value of the consideration payables was measured by discounting the nominal amount of the consideration payables at the discount rate of 8.92% that it will be settled in full on 5 January 2018. In 2015, included in consideration payables was an amount of RMB16,000,000 (Note 28) withheld on and payable on behalf of the former shareholders of Huachun to the tax authority for their capital gain earned in this transaction.

The withholding tax payable was fully settled during 2016.

40. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2016, the Group did not have any major non-cash transaction.

During the year ended 31 December 2015, addition to property, plant and equipment of approximately RMB4,991,000 was financed by a finance lease.

41. CAPITAL COMMITMENTS

	2016 **RMB'000**	2015 RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	**417**	64,420

42. OPERATING LEASE COMMITMENT

At 31 December 2016, the total future minimum lease payments under a non-cancellable operating lease in respect of rented premises, which fall due as follows:

	2016 **RMB'000**	2015 RMB'000
Within one year	**83**	470
In the second to fifth year inclusive	**–**	78
	83	548

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

43. RETIREMENT BENEFIT SCHEME

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

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying Hong Kong employees in the Group. The assets of the 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 Scheme, which contribution is matched by employees.

The total contributions to retirement benefit schemes charged to profit or loss for the year ended 31 December 2016 are disclosed in Notes 16 and 17.

44. PLEDGE OF ASSETS

At 31 December 2016, the following carrying amounts of assets have been pledged as security for the Group's bills payable, finance lease payable and bank borrowings (Notes 29, 31 and 32):

	2016 **RMB'000**	2015 RMB'000
Property, plant and equipment	**673,796**	651,932
Prepaid lease payments	**28,003**	36,717
Pledged bank deposits	**61,571**	36,195
	763,370	724,844

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

45. RELATED PARTY TRANSACTIONS

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

(a) Compensation of key management personnel

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

	2016 RMB'000	2015 RMB'000
Short-term benefits	**3,659**	3,378
Post-employment benefits	**58**	61
	3,717	3,439

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

At 31 December 2016, included in accrued salaries and wages was an amount of approximately RMB161,000 (2015: RMB70,000) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

(b) Other transactions with related parties

At 31 December 2016, the Group's Note Instruments and Convertible Bond were secured by 514,305,000 ordinary shares of the Company held by Popular Trend, a company wholly owned by an executive director of the Company and the cash maintained by Popular Trend under a collateral account, and was guaranteed by an executive director of the Company.

At 31 December 2015, the Group's bonds were guaranteed by a close family member of the executive directors of the Company. The Bonds were fully settled during 2016.

In 2016, certain unsecured loans were borrowed from a related company 江西宝源彩纺有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co., Limited ("**Jiangxi Baoyuan**")) ranging from RMB500,000 to RMB20,000,000. These loans were interest-free and fully repaid by the Group during the year ended 31 December 2016. Jiangxi Baoyuan is considered as a related company of the Group since its 80% equity interest held by a close family member of the executive directors.

46. CONTINGENT LIABILITIES

At 31 December 2016, the Group did not have any significant contingent liabilities (2015: Nil).

47. 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 2016 and 2015. There are no share options outstanding at 31 December 2016 and 2015.

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

(a) Statement of financial position of the Company

	Note	2016 RMB'000	2015 RMB'000
Non-current assets			
Investments in subsidiaries		**56,043**	45,986
Advances to a subsidiary (Note)		**66,943**	62,709
Loans to subsidiaries		**142,774**	–
		265,760	108,695
Current assets			
Prepayments		**93**	112
Amounts due from subsidiaries		**82,052**	80,000
Cash and bank balances		**583**	357
		82,728	80,469
Current liabilities			
Other payables		**694**	279
Amount due to a subsidiary		**10,437**	8,874
Financial guarantee contract liabilities		**8,200**	–
Notes payable		**705**	–
Liabilities component of convertible bond		**1,128**	–
Derivative component of convertible bond		**50,853**	–
		72,017	9,153
Net current assets		**10,711**	71,316
Total assets less current liabilities		**276,471**	180,011

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

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

	Note	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Notes payable		**44,729**	–
Liabilities component of convertible bond		**68,289**	–
		113,018	–
Net assets		**163,453**	180,011
Capital and reserves			
Share capital		**101,989**	101,989
Reserves	48(b)	**61,464**	78,022
Equity		**163,453**	180,011

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 2016.

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 24 March 2017 and are signed on its behalf by:

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

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

(b) Reserve movement of the Company

	Share Premium RMB'000 (Note 49(b)(i))	Special reserve RMB'000 (Note 49(b)(iii))	Retained profits/ (Accumulated losses) RMB'000	Total RMB'000
At 1 January 2015	83,017	(81)	950	83,886
Profit and total comprehensive income for the year	–	–	3,250	3,250
Issue of bonus shares	(9,114)	–	–	(9,114)
At 31 December 2015 and at 1 January 2016	**73,903**	**(81)**	**4,200**	**78,022**
Loss and total comprehensive income for the year	**–**	**–**	**(16,558)**	**(16,558)**
At 31 December 2016	**73,903**	**(81)**	**(12,358)**	**61,464**

49. 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.

49. RESERVES (Continued)

(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.

50. 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$253,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Huachun Color Spinning Technology Development Co., Ltd. Δ*	PRC	RMB120,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Xinyuan Special Fibres Company Limited Δ*	PRC	RMB70,000,000	–	51%	Manufacturing and trading of polyester staple fibres

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

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

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

50. 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	
	2016	2015
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	**73,649**	33,595
Current assets	**29,039**	3,318
Non-current liabilities	**(2,271)**	(2,379)
Current liabilities	**(35,215)**	(76)
Net assets	**65,202**	34,458
Year ended 31 December:		
Revenue	**2,076**	–
Loss	**(4,256)**	(542)
Total comprehensive income	**(4,256)**	(542)
Net cash generated from/(used in) operating activities	**5,890**	(431)
Net cash used in investing activities	**(41,645)**	(31,430)
Net cash generated from financing activities	**35,000**	35,000
Net (decrease)/increase in cash and cash equivalents	**(755)**	3,139

50. SUBSIDIARIES (Continued)

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:

	2016 RMB'000	2015 RMB'000
Loss allocated to NCI	**(2,047)**	(266)
Accumulated NCI	**31,987**	16,884

51. EVENTS AFTER THE REPORTING PERIOD

On 1 March 2017, the Company issued a voluntary redemption notice to the noteholder to redeem all the outstanding principal of the Note Instruments of HK$50,000,000 and interest thereon on 31 March 2017 subject to the consent from the noteholder and from the State Administration of Foreign Exchange of the PRC in respect thereof. The redemption is primarily satisfied by internal funds. Up to the date of these consolidated financial statements, the aforesaid consent is yet to be obtained.

52. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The change included grouping of certain gains and losses in profit or loss under "other gains and losses" line item.

Five Years Financial Summary

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
Revenue	918,513	880,272	846,554	1,302,799	**1,435,942**
Cost of sales	(874,384)	(822,443)	(804,470)	(1,196,908)	**(1,280,402)**
Gross profit	44,129	57,829	42,084	105,891	**155,540**
Other income	23,400	21,218	15,330	23,774	**16,896**
Other gains and losses	(1,110)	(15)	(204)	1,216	**(18,619)**
Distribution and selling expenses	(13,388)	(11,942)	(12,400)	(25,858)	**(25,671)**
Administrative expenses	(23,118)	(22,741)	(28,366)	(42,874)	**(46,304)**
(Losses)/Gain from fire, net	–	–	(52,163)	5,513	**–**
Finance costs	(13,525)	(11,154)	(17,145)	(51,800)	**(52,984)**
Profit/(Loss) before tax	16,388	33,195	(52,864)	15,862	**28,858**
Income tax (expense)/credit	(15,318)	(12,153)	2,036	(2,305)	**(16,059)**
Profit/(Loss) and total comprehensive income for the year	1,070	21,042	(50,828)	13,557	**12,799**
Profit and total comprehensive income for the year attributable to:					
Owners of the Company	1,070	21,042	(50,828)	13,823	**14,846**
Non-controlling interest	–	–	–	(266)	**(2,047)**
	1,070	21,042	(50,828)	13,557	**12,799**
Earnings/(Loss) per share					
Basic (RMB cents)	0.11	2.08	(4.96)	1.10	**1.19**
Diluted (RMB cents)	0.11	N/A	N/A	N/A	**N/A**

	At 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	725,245	816,830	859,188	1,508,211	**1,548,305**
Total liabilities	(325,372)	(404,069)	(426,300)	(1,044,616)	**(1,054,761)**
	399,873	412,761	432,888	463,595	**493,544**
Equity attributable to:					
Owners of the Company	399,873	412,761	432,888	446,711	**461,557**
Non-controlling interests	–	–	–	16,884	**31,987**
Total equity	399,873	412,761	432,888	463,595	**493,544**