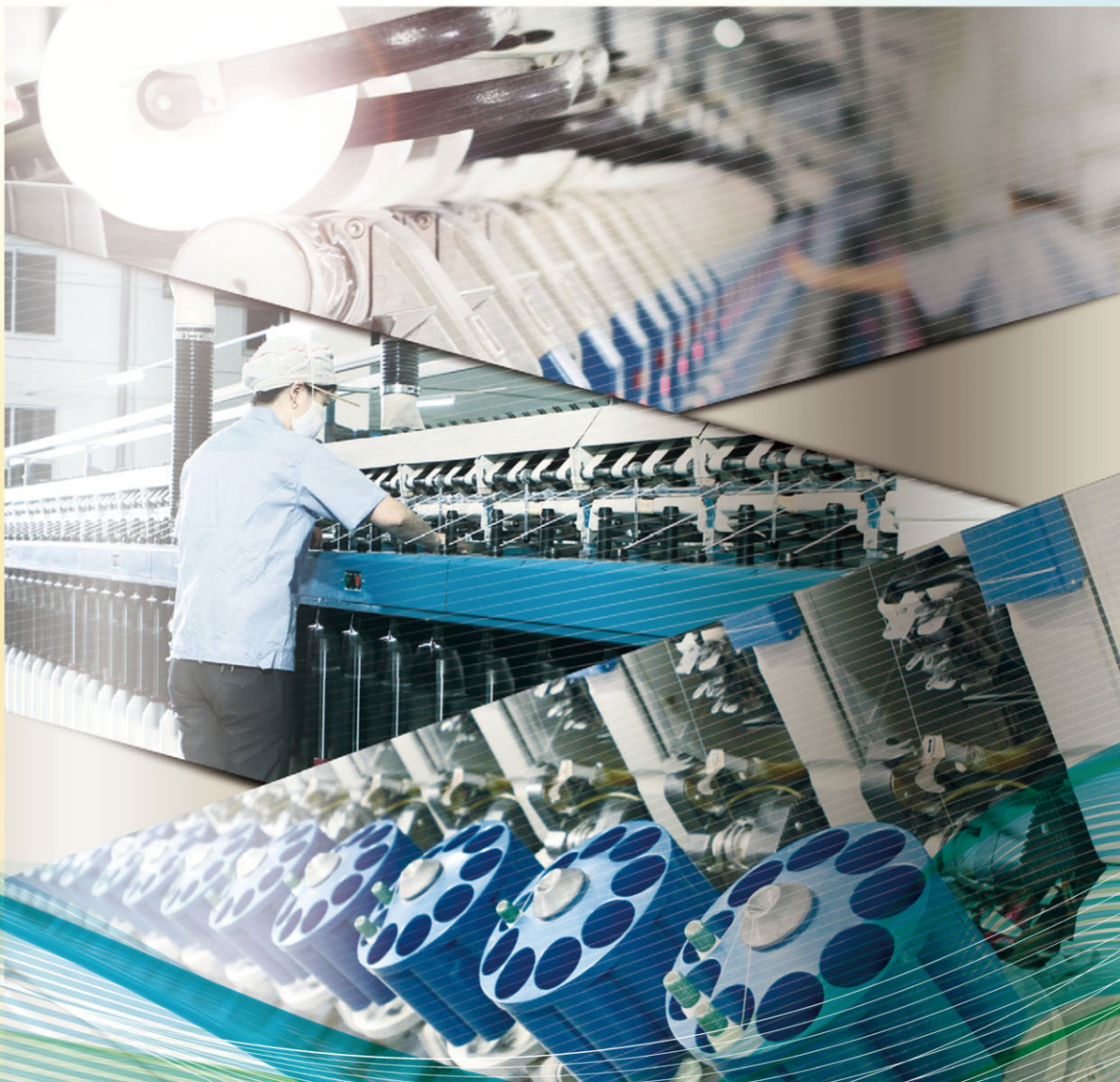


CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778



ANNUAL REPORT 2015

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zheng Hong (Chairman)
Mr. Zheng Yongxiang

Non-Executive Director

Mr. Sze Irons BBS, JP

Independent Non-Executive Directors

Mr. Nie Jianxin
Mr. Ng Wing Ka
Ms. Zhang Baixiang

BOARD COMMITTEES

Audit committee

Ms. Zhang Baixiang (Chairman)
Mr. Nie Jianxin
Mr. Ng Wing Ka

Remuneration committee

Mr. Ng Wing Ka (Chairman)
Mr. Nie Jianxin
Ms. Zhang Baixiang
Mr. Zheng Hong

Nomination committee

Mr. Zheng Hong (Chairman)
Mr. Nie Jianxin
Mr. Ng Wing Ka
Ms. Zhang Baixiang

COMPANY SECRETARY

Mr. Cheung Chi Fai Frank

AUTHORISED REPRESENTATIVES

Mr. Zheng Hong
Mr. Cheung Chi Fai Frank

REGISTERED OFFICE

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

HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "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

LEGAL ADVISERS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

As to PRC law:

Jiangxi Xinyuan Law Offices

AUDITOR

RSM Hong Kong

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

Bank of Communications Limited
(Nanchang Donghu Sub-branch)
China CITIC Bank
(Nanchang Branch)
China Construction Bank Corporation
(Fengxin Sub-branch)
China Merchants Bank Company Limited
(Changbei Sub-branch)
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Jiangxi Rural Credit Union
(Fengxin Sub-branch)
Nanyang Commercial Bank (China) Limited
(Shenzhen Branch)
Shanghai Pudong Development Bank Co. Ltd.
(Nanchang Branch)
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation
Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Chairman's Statement

2015 has been challenging for the textile industry as the international economies showed little signs of recovery and the growth in the domestic economy in the PRC has slowed down. Following the significant drop in cotton prices resulting from the shift in the national cotton temporary reserve policy of the PRC government in 2014, the domestic cotton prices have been relatively more stable in 2015 despite that prices remained at a low level in general. However, with the crude oil prices plummeting in the second half of 2015, the whole value chain of polyester yarns fell into downward spiral and the yarns products suffered from depressed selling prices.

In January 2015, the Group completed the acquisition of Jiangxi Huachun Color Spinning Technology Development Co. Ltd. ("**Huachun**"). The integration of Huachun into the Group increased the total production capacity of the Group from approximately 380,000 spindles to 690,000 spindles and afforded the Group immediate access to the grey mélangé yarns market. The integration created synergy in terms of sales, materials procurement and production. Apart from the grey mélangé yarns, the Group has also diversified its product portfolio with viscose yarns. The relocation of the production facilities affected by the fire accident in 2014 has been completed and the production has resumed.



The low domestic cotton prices are expected to prevail in 2016 given the high level of inventory. After a drastic fall in the second half of 2015, international oil prices slumped to below US\$30 per barrel in February 2016 before showing signs of stabilizing in March 2016. Lower prices of raw materials will translate into lower yarn prices for yarn products. However, risks of another further plunges which are similar to those in the past two years appear to be low. The steadying raw material prices will provide a better foundation for the development of textile industry.

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 intends to step up its effort in product development. It is constructing a research and development manufacturing facilities for development and testing of new products. The Group will also reinforce sales and marketing to explore markets for new products; whilst initiating its upstream integration by establishing Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**"). The construction of the basic infrastructure and manufacturing facilities of Xinyuan has been substantially completed and installation of the production facilities is expected to commence in the second quarter of 2016.

I am confident about the future taking into account the Group's enlarged product portfolio and increased economies of scale. I believe the Group is well positioned to take advantage of 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 ("**Shareholders**") and various government bodies for their trust and support.

Zheng Hong

Chairman

Hong Kong, 24 March 2016

Management Discussion and Analysis



Management Discussion and Analysis (Continued)

MARKET OVERVIEW

In 2015, 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 tight liquidity in the domestic capital market, 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 7.4% for 2014 to 6.9% for 2015.

Following the significant drop in cotton prices resulting from the shift in the PRC’s government national cotton temporary reserve policy in 2014, the domestic cotton prices in the PRC have been relatively more stable in 2015 despite prices are generally shifting lower.

However, the international crude oil prices plummeted to below US\$40 per barrel in the second half of 2015 after hovering between US\$45 and US\$60 per barrel for most of the time in the first half of 2015. The prices of all the downstream products manufactured with

crude oil, including purified terephthalic acid (“PTA”), also plummeted accordingly. PTA is the basic raw material for the manufacturing of polyester staple fiber (“PSF”) and PSF is the basic raw material for polyester yarns. The plummeting crude oil prices in the second half of 2015 have pushed the whole value chain of polyester yarns into a downward spiral. As the selling prices of yarn products have a positive correlation with that of raw materials, the yarn products suffered from depressed selling prices.

BUSINESS REVIEW

As disclosed in the Company’s announcement dated 7 January 2015, the Group has completed the acquisition of the entire equity interest of Huachun in January 2015. The operating results of Huachun have been consolidated into those of the Group since the completion of the acquisition and the sales, production and gross profit of the Group increased substantially as a result of the consolidation.

The sales volume of the Group increased by 86.1% from approximately 60,261 tonnes for the year ended 31 December 2014 to approximately 112,165



tonnes for the year ended 31 December 2015. The production volume of the Group increased by 89.2% from approximately 59,843 tonnes for the year ended 31 December 2014 to approximately 113,223 tonnes for the year ended 31 December 2015. The revenue of the Group increased by 53.9% to approximately RMB1,302.8 million for the year ended 31 December 2015 as compared to RMB846.6 million for the year ended 31 December 2014. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2015 was approximately RMB105.9 million and approximately RMB13.8 million, respectively.

As disclosed in the Company's announcements dated 2 January 2015 and 5 January 2015, the Group suffered from a fire accident on 31 December 2014 causing damage to certain inventories, plant and equipment and part of the building premises including the warehouse and Workshop One situated at Phase III of the production bases ("**Phase III**") of the Group located at Fengxin County, Jiangxi Province, PRC. There were no casualties but the production at Phase III was suspended. Phase III is situated at a distant location from the rest of the production bases and has a production capacity of 50,000 spindles, representing approximately 13% of the total capacity of 380,000

spindles of the Group. Restoration and repair works and replacement of damaged equipment were carried out soon after the accident. The production line was relocated to Workshop Two of Phase III which was not affected by the fire accident. Production capacity of approximately 40,000 spindles has been resumed as of the date of this report. In response to changes in market conditions, the above mentioned facilities have been converted into the production of viscose yarns in the first quarter of 2016.

The newly installed open-end spun production facilities, which are also located in Phase III, were put under trial production in the fourth quarter of 2014. The production capacity of these newly installed production facilities is 1,600 heads (equivalent to approximately 20,000 spindles). These facilities suffered no damage at all in the fire but the trial production was also suspended as the high voltage transformer system for the entire Phase III facility was damaged in the fire and required replacement. The production facilities for the open-end spun yarns resumed operation in May 2015. However, in view of the severe competition in the open-end spun yarns market, the Company has converted the facilities into production of viscose yarns, of which margins are expected to be higher.



Management Discussion and Analysis (Continued)

In December 2014, the Group established the subsidiary company, Xinyuan in the Industrial Development Zone of Fengxin County of Jiangxi Province. The total registered 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. During the year ended 31 December 2015, Xinyuan was yet to commence business. Xinyuan marks the Group's first step into upward vertical integration. The construction of the workshop and other basic infrastructure of Xinyuan have substantially been completed. The other 49% equity interest in Xinyuan is owned by two independent third parties.

FINANCIAL REVIEW

Turnover

Turnover of the Group for the year ended 31 December 2015 was approximately RMB1,302.8 million, representing an increase of approximately RMB456.2 million, or 53.9%, as compared to that for the year ended 31 December 2014. Sales of polyester yarn, polyester-cotton blended yarn, cotton yarn, grey mélangé yarn, viscose yarn and cotton trading accounted for approximately 39.7% (2014: 44.1%), 36.3% (2014: 46.5%), 7.2% (2014: 9.3%), 13.8% (2014: nil), 1.1% (2014: nil), and 1.9% (2014: 0.1%) of total sales of the Group for the year ended 31 December 2015, respectively. The increase in the turnover of the Group for the year ended 31 December 2015 was attributable to the increase in sales volume from approximately 60,261 tonnes for the year ended 31 December 2014 to approximately 112,165 tonnes for the year ended 31 December 2015 despite the decrease in average unit selling prices of the Group's yarn products. The overall average selling price of yarn products of the Group decreased by approximately 17.2% from approximately RMB14,027 per tonne for the year ended 31 December 2014 to approximately RMB11,615 per tonne for the year ended 31 December 2015.

The increase in sales and production volume was mainly due to the consolidation of the results of Huachun which accounted for 50,025 tonnes and 50,894 tonnes respectively. The sales of Huachun accounted for approximately RMB527.2 million for the year ended 31 December 2015. The lower average selling prices of yarn products were mainly due to lower costs of raw materials and change in product mix of the Group. Due to the consolidation of Huachun into the Group, grey mélangé yarn products were introduced into the Group's product portfolio. Grey mélangé yarn products generally have lower selling prices than the existing products of the Group as grey mélangé yarn products enjoy lower costs of raw materials.

The selling prices of yarn products of the Group have a positive correlation with that of raw materials namely, PSF and raw cotton. The Group sets the prices of its yarn products based on a variety of factors, including raw material prices, production costs, market conditions, inventory level and the quality of the yarn products required by our customers. As PSF's are crude oil – based commodities, the prices of polyester yarns and polyester – cotton blended yarns are indirectly affected by the fluctuations in crude oil prices. The Group adjusts the selling prices of its yarn products from time to time considering the fluctuation in its raw material costs. In addition, the Group also monitors the movement of international and domestic raw cotton prices and members from the management, sales department and procurement department of the Group meet on a frequent basis to review the selling prices of its yarn products in order to respond to the changes of the various factors affecting its selling prices. The average unit purchase prices of PSF's and raw cotton were lower in 2015 than in 2014 and the Group lowered the prices of its various yarn products accordingly in 2015.

Gross profit and gross profit margin

Gross profit of the Group increased from approximately RMB42.1 million for the year ended 31 December 2014 to approximately RMB105.9 million for year ended 31 December 2015. The gross profit margin of the Group increased from approximately 5.0% for the year ended 31 December 2014 to approximately 8.1% for year ended 31 December 2015. The increase in gross profit was mainly due to the increase in turnover resulting from the consolidation of the results of Huachun which was acquired in January 2015. The increase in gross profit margin of the Group was due to the fact that the rate of decrease in the selling prices of the Group's yarn products has been lower than that of the raw materials as a result of improvement in the product mix and marketing effect of the Group.

Other Income

Other income of the Group increased from approximately RMB15.3 million for the year ended 31 December 2014 to approximately RMB24 million for the year ended 31 December 2015, representing an increase of 56.9% or approximately RMB8.7 million. The increase in other income was mainly due to increase in government grants and income from scrap sales.

Distribution and selling expenses

Distribution and selling expenses of the Group increased from approximately RMB12.4 million for the year ended 31 December 2014 to approximately RMB25.9 million for the year ended 31 December 2015, representing an increase of approximately RMB13.5 million, or 108.9%. Distribution and selling expenses as a percentage of turnover of the Group was approximately 2.0% for the year ended 31 December 2015 (2014: 1.5%). Such increase was mainly due to the fact that selling prices per tonne for the Group's yarn products had lowered but the transportation cost per tonne remained almost the same. The increase in the Group's distribution and selling expenses was mainly due to increase in sales volume from approximately 60,261 tonnes for the year ended 31 December 2014 to approximately 112,165 tonnes for year ended 31 December 2015. The increase in sales volume was mainly due to the consolidation of the results of Huachun which accounted for 50,025 tonnes.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB28.4 million for the year ended 31 December 2014 to approximately RMB42.9 million for the year ended 31 December 2015, representing an increase of 51.1% or approximately RMB14.5 million. Administrative expenses as a percentage of turnover of the Group was approximately 3.3% for the year ended 31 December 2015 (2014: 3.4%). The increase in the Group's administrative expenses was mainly due to the consolidation of the administrative expenses of Huachun of approximately RMB15.1 million.

Finance costs

Finance costs of the Group increased from RMB17.1 million for the year ended 31 December 2014 to approximately RMB51.8 million for the year ended 31 December 2015, representing an increase of 202.9% or approximately RMB34.7 million. The increase in the Group's finance costs was mainly due to: (i) the consolidation of the finance costs of Huachun of approximately RMB29.2 million and (ii) the interest expense of approximately RMB4.2 million on the outstanding consideration payable to the vendors of Huachun.

Income tax expense

The Group's effective income tax rate for the year ended 31 December 2015 was approximately 14.5%, as compared to an income tax credit rate of 3.9% for the year ended 31 December 2014. The 2014 income tax credit mainly arose from the fire loss incurred in 2014.

Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company for the year ended 31 December 2015 was approximately RMB13.8 million, as compared to approximately RMB50.8 million of loss attributable to owners of the Company for the year ended 31 December 2014. The Group's net profit was mainly due to the increase in gross profit and other income coupled with the decrease in losses from fire. However, such effect was partially offset by increase in distribution and selling expenses, administrative expenses and finance costs.

Management Discussion and Analysis (Continued)

Earnings per share

The basic earnings per share of the Company for the year ended 31 December 2015 was approximately RMB1.10 cent, representing an increase in earnings per share of approximately RMB5.61 cents as compared to approximately RMB4.51 cents basic loss per share (as restated) for the year ended 31 December 2014. The increase in basic earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2015.

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 2015, net cash generated from operating activities of the Group amounted to approximately RMB86.1 million (year ended 31 December 2014: RMB2.6 million). The Group had cash and bank balances of approximately RMB41.2 million (31 December 2014: RMB90.6 million), restricted bank deposit of approximately RMB20.1 million (31 December 2014: nil), pledged bank deposits of approximately RMB36.2 million (31 December 2014: RMB6.7 million) and nil time deposit (31 December 2014: RMB76.1 million) as at 31 December 2015. The Group's cash and bank balances were mainly held in Hong Kong Dollars, Renminbi and US Dollars.

Capital Structure and Pledge on Assets

The Group's interest-bearing borrowings were made in Renminbi and Hong Kong dollars. As at 31 December 2015, the Group's interest-bearing borrowings amounted to approximately RMB658.1 million (31 December 2014: RMB295.5 million), of which RMB575.1 million (87.4%) (31 December 2014: RMB280.5 million (95.0%)) was repayable within one year. The Group's banking facilities and bond payables were secured by its land use rights, properties, plant and equipment and pledged bank deposits with a carrying value of

approximately RMB724.8 million in aggregate (31 December 2014: RMB256.7 million). The increase in the Group's interest-bearing borrowings was primarily due to the consolidation of the bank borrowings and bond payables of Huachun.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, bond payable, finance leases payables, bills payable and consideration payable to total assets, was approximately 50.3% as at 31 December 2015 (31 December 2014: 37.3%). Net current liabilities and net assets at 31 December 2015 was approximately RMB590.0 million (31 December 2014: RMB120.4 million) and approximately RMB463.6 million (31 December 2014: RMB432.9 million), respectively. The increase in the Group's gearing ratio was mainly due to the consolidation of Huachun, the gearing ratio of which was higher than that of the Group before the acquisition. The increase in the net current liabilities of the Group was mainly due to the consolidation of the bank borrowings and bond payables of Huachun.

Foreign Exchange Exposure

As the Group conducts its business transactions principally in Renminbi, the management considered the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the year ended 31 December 2015. The Group has foreign currency cash and bank balances, pledged bank deposits, bills receivable, other receivables, bank borrowings, bills payable and other payables, which mainly expose the Group to risks in Hong Kong Dollars and US Dollars. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2015 were approximately RMB11.7 million (31 December 2014: RMB82.4 million) and RMB9.4 million (31 December 2014: RMB15.4 million) respectively.

Contingent Liabilities

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

Employees, Remuneration and Share Option Scheme

As at 31 December 2015, the Group had a total of 3,103 (31 December 2014: 1,705) employees. The increase in the number of employees was mainly due to the acquisition of Huachun and the increase in the Group's head count by the number of employees employed by Huachun. Remuneration for employees, including 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

As disclosed in the Company's announcements dated 30 September 2014 and 7 January 2015, the Group had entered into an agreement to acquire the entire equity interest of Huachun and completed the acquisition, respectively.

Save as disclosed above, during the year ended 31 December 2015, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

The Group had completed the acquisition of Huachun in January 2015. The integration of Huachun into the Group immediately increased the total production capacity of the Group from approximately 380,000 spindles to 690,000 spindles and gave the Group

immediate access to the grey mélange yarns market. The integration has achieved synergy in terms of sales, materials procurement and production. Apart from the grey mélange yarns, the Group has also introduced viscose yarns into its product portfolio. The relocation of the production facilities affected by the fire accident has been completed and the production has substantially resumed.

The prices of domestic cotton are expected to remain low in 2016 given the high level of inventory. After a drastic fall in the second half of 2015, international oil prices further plummeted to below US\$30 per barrel in February 2016 and then showed some signs of stabilization in March 2016. Lower prices of raw materials will translate into lower yarn prices for yarn products. However, further substantial downward risks appear less likely after the prices adjustments in the past 2 years. The stabilization of raw material prices will provide a better foundation for the textile industry as a whole.

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 intends to put more effort into new products development. The Group is constructing a research and development workshop for new products development and testing. The Group will also increase its effort in developing markets for its new products. Taking into account the benefits from the enlarged product portfolio and increased economies of scale as a result of the successful acquisition of Huachun, 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 of the Company (the “**Directors**”) are pleased to present their report and the audited financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the manufacture and sale of cotton, polyester and polyester-cotton blended yarns. Details of principal activities of the principal subsidiaries are set out in note 48 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 2015 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 36 to 38 of this annual report and note 46 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” and note 2 to the consolidated financial statements of this annual report for details.

Significant Events Since the End of the Financial Year

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

Business Analysis using Financial Key Performance Indicators

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

Compliance with Laws and Regulations

For the year ended 31 December 2015 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 Group, 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.

Relationship with Employees

The Company considers 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 2015, the Group had over 2,100 customers. The Group does not rely on a few large customers. During the year ended 31 December 2015, sales to the Group's five largest customers accounted for 13.5% of the total sales of the Group for 2015 and sales to the largest customer included therein accounted for 5.7% of the total sales of the Group for the same period.

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 2015, the Group had over 50 suppliers of raw materials, production equipment and production accessories. Purchases from the Group's five largest suppliers accounted for 54.1% of the total purchases of the Group for the year ended 31 December 2015 and purchases from the Group's largest supplier included therein accounted for 27.2% of the total purchases of the Group for the same period. The Company considers 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 of Directors (the "**Board**") has not recommended the payment of a dividend in respect of the year ended 31 December 2015.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years (including the year ended 31 December 2015) is set out on page 98 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of the Directors (Continued)

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 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

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 2015.

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 2015, 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 RMB78.1 million.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2015, the Group did not make any charitable contribution.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2015, sales to the Group's five largest customers accounted for 13.5% of the total sales of the Group for 2015 and sales to the largest customer included therein amounted to 5.7% of the total sales of the Group for the same period.

Purchases from the Group's five largest suppliers accounted for 54.1% of the total purchases of the Group for the year ended 31 December 2014 and purchases from the Group's largest supplier included therein amounted to 27.2% of the total purchases of the Group for the same period.

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.

DIRECTORS

The directors of the Company as at 31 December 2015 were:

Executive Directors:

Mr. Zheng Hong (Chairman)

Mr. Zheng Yongxiang

Non-Executive Director:

Mr. Sze Irons BBS, JP

Independent Non-Executive Directors:

Mr. Nie Jianxin

Mr. Ng Wing Ka

Ms. Zhang Baixiang

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 7 June 2016 (the "**Annual General Meeting**"), being eligible, will offer themselves for re-election.

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

Report of the Directors (Continued)

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.

The non-executive Director and two independent non-executive Directors have signed appointment letters with the Company for a term of three years commencing from 22 December 2014. One independent non-executive Director has signed an appointment letter with the Company for a term of three years commencing from 27 November 2014. 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 2015.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2015, 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") as set out in Appendix 10 to the Listing Rules, are set out below:

Long positions in ordinary shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Interest in the Company
Mr. Zheng Hong	Interest of a controlled corporation	514,305,000 ⁽¹⁾ (long position)	41.07%
Mr. Sze Irons BBS, JP	Interest of a controlled corporation	135,135,000 ⁽²⁾ (long position)	10.79%
Mr. Zheng Yongxiang	Beneficial owner	23,201,200 (long position)	1.85%

Notes:

- (1) These Shares are held by Popular Trend Holdings Limited ("Popular Trend"), the entire issued share capital of which is owned by Mr. Zheng Hong.
- (2) These Shares are held by Flourish Talent Group Limited ("Flourish Talent"), the entire issued share capital of which is owned by Mr. Sze Irons BBS, JP.

Save as disclosed above, as at the date of this report, none of the Directors 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.

Report of the Directors (Continued)

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 5.8 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.

Report of the Directors (Continued)

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 Director 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 2015, 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 are as follows:

Name of Shareholder	Capacity/ Nature of Interest	Number of Shares	Approximate percentage of shareholding in
Popular Trend ⁽¹⁾	Beneficial owner	514,305,000 Shares (long position)	41.07%
Flourish Talent ⁽²⁾	Beneficial owner	135,135,000 Shares (long position)	10.79%
Da Yu Investments ⁽³⁾	Beneficial owner	67,567,500 Shares (long position)	5.40%
Ms. Xie Meijing ⁽³⁾	Interest of a controlled corporation	67,567,500 Shares (long position)	5.40%

Notes:

1. Popular Trend is wholly-owned by Mr. Zheng Hong.
2. Flourish Talent is wholly-owned by Mr. Sze Irons BBS, JP.
3. Da Yu Investments Limited ("**Da Yu Investments**") is wholly-owned by Ms. Xie Meijing ("**Ms. Xie**"). For the purpose of Part XV of the SFO, Ms. Xie is deemed to be interested in the Shares held by Da Yu Investments.

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 2015.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders, namely Popular Trend Holdings Limited 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 2015 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

No connected transaction was entered into or in existence since the listing date of the Company and up to 31 December 2015.

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.

Report of the Directors (Continued)

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 2015.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 3 June 2016 to Tuesday, 7 June 2016, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 2 June 2016.

AUDITOR

Deloitte Touche Tohmatsu retired as auditors of the Company at the annual general meeting of the Company held on 28 May 2015 in accordance with the Articles and the terms of its engagement with the Company and RSM Nelson Wheeler (subsequently changed its name to RSM Hong Kong on 26 October 2015) was appointed as the auditors of the Company to fill the vacancy arising from the retirement of Deloitte Touche Tohmatsu. Save as disclosed above, there have been no change of auditors of the Company for the past three years.

The consolidated financial statements for the year ended 31 December 2015 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 2016

Corporate Governance Report

The Board hereby presents this Corporate Governance Report for the year ended 31 December 2015.

A. CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2015, the Company had complied with the code provisions of the existing Corporate Governance Code (the “CG Code”) and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

In respect of code provision A.6.7 of the CG Code, one of the independent non-executive Directors was unable to attend the annual general meeting of the Company held on 28 May 2015 due to business travel.

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 2015.

C. BOARD OF DIRECTORS

Directors’ and Officers’ Insurance

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

Board Composition

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

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

Corporate Governance Report (Continued)

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.

The non-executive Director and two independent non-executive Directors have signed appointment letters with the Company for a term of three years commencing from 22 December 2014. One independent non-executive Director has signed an appointment letter with the Company for a term of three years commencing from 27 November 2014. 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. Nie Jianxin

Mr. Ng Wing Ka

Ms. Zhang Baixiang

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 2015, as well as the number of such meetings held, are set out as follows:

	Meetings attended/held				Annual General meeting
	Board	Remuneration Committee	Nomination Committee	Audit Committee	
Number of meetings	4	1	1	3	1
Executive Directors:					
Mr. Zheng Hong	4/4	1/1	1/1	–	1/1
Mr. Zheng Yongxiang	4/4	–	–	–	1/1
Non-Executive Director:					
Mr. Irons Sze BBS, JP	3/4	–	–	–	1/1
Independent Non-Executive Directors:					
Mr. Ng Wing Ka	3/4	1/1	1/1	3/3	0/1
Mr. Nie Jianxin	4/4	1/1	1/1	3/3	1/1
Ms. Zhang Baixiang	4/4	1/1	1/1	3/3	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, an independent non-executive Director, is the Chairman of the Remuneration Committee. The other members are Mr. Nie Jianxin and Ms. Zhang Baixiang, who are also the independent non-executive Directors, and Mr. Zheng Hong, an executive Director.

During the year ended 31 December 2015, one meeting was held by the Remuneration Committee. The Remuneration Committee reviewed and approved the remuneration packages of the Directors and senior management at the meeting. All members of the Remuneration Committee attended the meeting.

Corporate Governance Report (Continued)

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2015 is set out below:

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

Further particulars regarding the Directors' remuneration and the five highest paid employees 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 three independent non-executive Directors, namely, Ms. Zhang Baixiang, Mr. Nie Jianxin and Mr. Ng Wing Ka. 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 2015, one meeting was held by the Nomination Committee. The Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of all the independent non-executive Directors at the meeting. All members of the Nomination Committee attended the meeting.

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 system. The Audit Committee comprises all the independent non-executive Directors, namely, Ms. Zhang Baixiang, Mr. Nie Jianxin and Mr. Ng Wing Ka. Ms. Zhang Baixiang is the chairman of the Audit Committee.

During the year ended 31 December 2015, the Audit Committee had three meetings and performed the following work:

- Review of the annual financial results for the year ended 31 December 2014 and interim financial results for the six months ended 30 June 2015 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 and interim review of the financial statements of the Group;
- Review of report prepared by external auditors on matters arising from the annual audit and interim review of the financial statements of the Group;

- Review and discussion with the external auditors on the internal control systems of the Group;
- Review the qualifications and independence of RSM Hong Kong and recommendation to the Board of the appointment of RSM Hong Kong as the auditors of the Company.

All members of the Audit Committee attended the three meetings.

The Group's audited consolidated results for the year ended 31 December 2015 had been reviewed by the Audit Committee.

Training for Directors

During the year ended 31 December 2015, the Directors participated in the following trainings:

	Types of training
Executive Directors:	
Mr. Zheng Hong	A, C
Mr. Zheng Yongxiang	A, C
Non-Executive Director:	
Mr. Irons Sze BBS, JP	C
Independent Non-Executive Directors:	
Mr. Nie Jianxin	A, C
Mr. Ng Wing Ka	B, C
Ms. Zhang Baixiang	A, 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, 2015, 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.

Corporate Governance Report (Continued)

D. FINANCIAL REPORTING 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 2015, the Group had net current liabilities of approximately RMB590,019,000. 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 RMB305,100,000 currently included in current liabilities as at 31 December 2015.
 - (ii) Undrawn banking facilities amounting to approximately RMB50,627,000.
 - (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB25 million.
 - (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.
- (c) The unconditional financial support from Mr. Zheng Hong, an indirect substantial Shareholder, and Mr. Zheng Yongxiang, a Shareholder, has been obtained to procure the necessary finance and support to the Group for a period of not less than twelve months from the reporting date.

In addition, in order to improve the Group's financial position, the Directors are actively exploring different alternatives of equity or other financing.

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 auditors with respect to financial reporting are set out in the Independent Auditors' Report on page 34.

Auditors' Remuneration

During the year ended 31 December 2015, the Group has incurred auditors' remuneration in respect of review and audit services of approximately RMB163,000, and RMB813,000 respectively, which was paid or payable to the Company's auditors, Messrs RSM Hong Kong.

Internal Control

The Group's internal control system is 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. It provides reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control for the Group and the Directors had conducted a review of its 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 internal control system 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.

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.

Corporate Governance Report (Continued)

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 the Article 58 of the Articles, any one or more Members 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 the 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 2015.

Directors and Senior Management

EXECUTIVE DIRECTORS

Zheng Hong (鄭洪), aged 40, was appointed as the chairman of our Company and an executive Director on 4 May 2011. Mr. Zheng Hong has over 15 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 47, was appointed as an executive Director on 4 May 2011. Mr. Zheng Yongxiang has over 14 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 54, 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 an independent non-executive director of Continental Holdings Limited (stock code: 513), a Company listed on the Main Board of the Stock Exchange of Hong Kong Limited and 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 currently the Permanent Honorary President of the Chinese Manufacturers' Association of Hong Kong. He is also a member of 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 (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Nie Jianxin (聶鑒新), aged 54, was appointed as an independent non-executive Director on 3 December 2011. Mr. Nie has over 12 years of experience in the industry of chemical fabrics. He is a party committee secretary (院黨委書記) and the President of China HI-TECH (Anhui) Architecture Design & Research Institute Co., Ltd. (恒天(安徽)建築設計研究院有限公司). Mr. Nie has served various positions in Jiujiang Chemicals Fabrics Factory (九江化學纖維廠) including the deputy head of the factory and the vice chairman of the board of Jiujiang Chemical Fibre Co., Ltd. (九江化纖股份有限公司). Mr. Nie graduated from the South China Institute of Technology (華南工學院) (now known as the South China University of Technology (華南理工大學)) with a bachelor's degree in engineering with specialization in chemical fabrics in 1982. He received the qualifications of professor grade senior engineer (教授級高級工程師) in 2001. Mr. Nie was awarded 3rd honour for science & technology development (江西省科學技術進步獎) in the project named 300D/60F Delustering Viscose Rayon (300D/60F消光粘膠人造絲) by the Peoples' Government of Jiangxi Province in 2002.

Ng Wing Ka (吳永嘉), aged 46, 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 is an independent non-executive director of Yanchang Petroleum International Limited (formerly known as Sino Union Energy Investment Group Limited), a company listed on the Main Board of the Stock Exchange (stock code: 346). 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.

Zhang Baixiang (張百香), aged 55, was appointed as an independent non-executive Director on 27 November 2014. Ms. Zhang has over 29 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.

SENIOR MANAGEMENT

Liu Weimin (劉偉民), aged 46, 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 25 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 33, 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 10 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 53, 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 24 years' experience in accounting, finance and business management and held senior positions in various multinational companies. 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



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

We have audited the consolidated financial statements of China Weaving Materials Holdings Limited (the "**Company**") and its subsidiaries set out on pages 36 to 97, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that the Company and its subsidiaries had net current liabilities of approximately RMB590,019,000 as at 31 December 2015. This condition indicates the existence of a material uncertainty that may cast significant doubt about the ability of the Company and its subsidiaries to continue as a going concern.

RSM Hong Kong
Certified Public Accountants
Hong Kong

24 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	9	1,302,799	846,554
Cost of sales		(1,196,908)	(804,470)
Gross profit		105,891	42,084
Other income	10	24,030	15,330
Other gains and losses	11	960	(204)
Gain/(Losses) from fire, net	12	5,513	(52,163)
Distribution and selling expenses		(25,858)	(12,400)
Administrative expenses		(42,874)	(28,366)
Finance costs	13	(51,800)	(17,145)
Profit/(Loss) before tax		15,862	(52,864)
Income tax (expense)/credit	14	(2,305)	2,036
Profit/(Loss) and total comprehensive income for the year	15	13,557	(50,828)
Profit/(Loss) and total comprehensive income for the year attributable to:			
Owners of the Company		13,823	(50,828)
Non-controlling interests		(266)	–
		13,557	(50,828)
Earnings/(Loss) per share	19		(Restated)
– Basic (RMB cents per share)		1.10	(4.51)
– Diluted (RMB cents per share)		N/A	N/A

Consolidated Statement of Financial Position

As at 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	20	1,084,908	539,388
Prepaid lease payments	21	45,434	34,111
Intangible asset	22	117	–
Deposits on acquisition of property, plant and equipment		17,561	963
Goodwill	23	34,829	–
Tax recoverable		8,938	–
Deferred tax assets	34	4,295	2,214
		1,196,082	576,676
Current assets			
Inventories	24	141,182	80,360
Trade and other receivables	25	54,298	17,677
Bills receivable	26	15,833	10,306
Prepaid lease payments	21	1,093	776
Tax recoverable		2,287	–
Pledged bank deposits	27	36,195	6,704
Restricted bank deposit	27	20,059	–
Time deposit	27	–	76,052
Cash and bank balances	27	41,182	90,637
		312,129	282,512
Current liabilities			
Trade and other payables	28	268,445	91,360
Bills payable	29	52,965	25,356
Deferred income	30	154	–
Finance lease payable	31	940	–
Bank borrowings	32	375,100	280,535
Bond payables	33	199,066	–
Current tax liabilities		5,478	5,635
		902,148	402,886
Net current liabilities		(590,019)	(120,374)
Total assets less current liabilities		606,063	456,302
Non-current liabilities			
Consideration payables	37	38,548	–
Deferred income	30	8,195	6,115
Finance lease payable	31	3,898	–
Bank borrowings	32	79,100	15,000
Deferred tax liabilities	34	12,727	2,299
		142,468	23,414
Net assets		463,595	432,888

Consolidated Statement of Financial Position (Continued)

As at 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Capital and reserves			
Share capital	35	101,989	92,875
Reserves		344,722	340,013
Equity attributable to the owners of the Company		446,711	432,888
Non-controlling interests		16,884	–
Total equity		463,595	432,888

Approved by the Board of Directors on 24 March 2016 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 2015

	Attributable to the owners of the Company					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserve	Special reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Note 47(b)(i))	(Note 47(b)(ii))	(Note 47(b)(iii))				
At 1 January 2014	82,899	14,017	65,058	148,739	102,048	412,761	-	412,761
Loss and total comprehensive income for the year	-	-	-	-	(50,828)	(50,828)	-	(50,828)
Shares issued, net of expenses (Note 35)	9,976	69,000	-	-	-	78,976	-	78,976
Dividend recognised as distribution (Note 18)	-	-	-	-	(8,021)	(8,021)	-	(8,021)
At 31 December 2014 and at 1 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 (Note 35)	9,114	(9,114)	-	-	-	-	-	-
Capital contribution from non-controlling interests	-	-	-	-	-	-	17,150	17,150
At 31 December 2015	101,989	73,903	65,058	148,739	57,022	446,711	16,884	463,595

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		15,862	(52,864)
Adjustments for:			
Amortisation of deferred income	30	(154)	(150)
Amortisation of prepaid lease payments		1,091	798
Amortisation of intangible asset	22	50	–
Depreciation of property, plant and equipment	20	51,049	27,171
Interest income	10	(1,524)	(930)
Interest expenses		51,701	16,909
Finance lease charges	13	99	–
Other finance expenses		–	236
Loss on disposal of property, plant and equipment	11	24	218
Losses from fire	12	5,219	52,163
Operating cash flows before movements in working capital		123,417	43,551
(Increase)/Decrease in inventories		(7,620)	9,306
Increase in trade and other receivables		(34,982)	(1,046)
Decrease/(Increase) in bills receivable		27,776	(3,707)
Increase in trade and other payables		29,891	2,941
Decrease in bills payable		(6,133)	(26,064)
Cash generated from operations		132,349	24,981
Finance lease charge refund, net		258	–
Interest paid		(46,281)	(16,909)
Income tax paid		(225)	(5,459)
NET CASH GENERATED FROM OPERATING ACTIVITIES		86,101	2,613
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(37,771)	(65,244)
Proceed on disposal of property, plant and equipment		–	334
Placement of pledged bank deposits		(57,718)	(6,704)
Acquisition of a subsidiary	36	(134,451)	–
Government grant received		2,388	–
Addition to prepaid lease payments		(192)	–
Deposits on acquisition of property, plant and equipment		(16,233)	(963)
Withdrawal of pledged bank deposits		59,829	19,167
Interest received		1,524	930
NET CASH USED IN INVESTING ACTIVITIES		(182,624)	(52,480)

	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contribution from non-controlling interests	17,150	–
Repayment of bank borrowings	(562,485)	(255,365)
Increase in restricted bank deposit	(20,038)	–
Dividends paid	–	(7,936)
Bank advance for discounted bills	–	1,493
Repayment of obligations under finance lease	(9,011)	–
Other finance expenses paid	–	(236)
Proceeds from bank borrowings	545,400	341,421
Proceeds from issue of shares	–	79,807
Payment for share issue costs	–	(831)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(28,984)	158,353
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(125,507)	108,486
CASH AND CASH EQUIVALENTS AT 1 JANUARY	166,689	58,203
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	41,182	166,689
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	41,182	90,637
Time deposit with original maturity less than three months	–	76,052
	41,182	166,689

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 polyester yarns, polyester-cotton blended yarns, grey and deep grey mélange yarns and cotton yarns and trading of cotton.

These consolidated financial statements for the year ended 31 December 2015 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).

2. BASIS OF PREPARATION (Continued)

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2015, the Group had net current liabilities of approximately RMB590,019,000. 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 RMB305,100,000 currently included in current liabilities as at 31 December 2015.
 - (ii) Undrawn banking facilities amounting to approximately RMB50,627,000.
 - (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB25 million.
 - (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.
- (c) The unconditional financial support from Mr. Zheng Hong, an indirect substantial shareholder of the Company, and Mr. Zheng Yongxiang, a shareholder of the Company, has been obtained to procure the necessary finance and support to the Group for a period of not less than twelve months from the reporting date.

In addition, in order to improve the Group's financial position, the directors of the Company are actively exploring different alternatives of equity or other financing.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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

(a) Application of new and revised IFRSs

In the current year, the Group has adopted all the new and revised IFRSs issued by the IASB that are relevant to the Group's operations and effective for the Group's accounting year beginning on 1 January 2015. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies and amounts reported for the current and prior years.

(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 2015. The directors anticipate that the new and revised IFRSs will be adopted in the Group's consolidated financial statements when they become effective. The Group is in the process of assessing, where applicable, the potential effect of all new and revised IFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

List of new and revised IFRSs in issue that are relevant for the Group's operation but not yet effective

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
Amendments to IAS 1	Disclosure Initiative ²
Amendments to IAS 7	Disclosure Initiative ⁴
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15 "Revenue from Contracts with Customers" is also applied.

⁴ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

(c) New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year. Although the Company is not incorporated in Hong Kong, the Rules Governing the Listing of Securities on the Stock Exchange require the Company to comply with the disclosure requirements of the new Hong Kong Companies Ordinance (Cap. 622). As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(d) Amendments to the Rules Governing the Listing of Securities on the Stock Exchange

The Stock Exchange in April 2015 released revised Appendix 16 of the Rules Governing the Listing of Securities in relation to disclosure of financial information in annual reports that are applicable for accounting periods ending on or after 31 December 2015, with earlier application permitted. The Company has adopted the amendments resulting in changes to the presentation and disclosures of certain information in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention.

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

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

(a) Consolidation

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(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 annual rates are as follows:

Buildings	3%–4%
Leasehold improvement	33%
Plant and machinery	5%–10%
Office equipment	5%–17%
Motor vehicles	10%–17%

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 a 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.

(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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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) 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.

(o) Equity instruments

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

(p) 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)

(q) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

(s) 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.

(t) 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)

(t) 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.

(u) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

(w) 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.

(x) 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 to the consolidated financial statements.

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 as at 31 December 2015 was approximately RMB1,084,908,000 (2014: RMB539,388,000).

(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 RMB2,305,000 of income tax expense (2014: RMB2,036,000 of income tax credit) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customers' taste and competitors' actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

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 ("**HKD**") 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 2015, if the RMB had weakened 5 per cent against the USD with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB168,000 higher (2014: consolidated loss after tax for the year would have been approximately RMB287,000 higher), arising mainly as a result of the foreign exchange gain on cash and bank balances and trade and other receivables (2014: loss on bills payable and bank borrowings) denominated in USD. If the RMB had strengthened 5 per cent against USD with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB168,000 lower (2014: consolidated loss after tax for the year would have been approximately RMB287,000 lower), arising mainly as a result of the foreign exchange loss on cash and bank balances and trade and other receivables (2014: gain on bills payable and bank borrowings) denominated in USD.

At 31 December 2015, if the RMB had weakened 5 per cent against HKD with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB203,000 lower (2014: consolidated loss after tax for the year would have been approximately RMB3,061,000 lower), arising mainly as a result of the foreign exchange loss on finance lease payable and other payables (2014: gain on cash and bank balances and other receivables) denominated in HKD. If the RMB had strengthened 5 per cent against HKD with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB203,000 higher (2014: consolidated loss after tax for the year would have been RMB3,061,000 higher), arising mainly as a result of the foreign exchange gain on finance lease payable and other payables (2014: loss on cash and bank balances and other receivables) denominated in HKD.

6. FINANCIAL RISK MANAGEMENT (Continued)

(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 96% (2014: 99%) 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 cash and bank balances is limited because the counterparties are well-recognised banks in Hong Kong and PRC.

(c) Liquidity risk

In preparing the consolidated financial statements, the management of the Group has 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 RMB590,019,000 (2014: RMB120,374,000) as at 31 December 2015. Up to the date of these consolidated financial statements were authorised for issue, certain banks agreed to renew bank loans amounting to RMB305,100,000 and the Group had undrawn banking facilities of approximately RMB50,627,000. The Group relies on bank borrowings as a significant source of liquidity. The directors of the Group is 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, the unconditional financial support from the shareholders and the internal financial resources and accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

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.

	On demand or less than 1 month RMB'000	Between 1 and 3 months RMB'000	Between 3 months and 1 years RMB'000	1 to 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2015						
Trade and other payables	243,052	–	–	–	243,052	243,052
Bills payable	17,840	7,300	27,825	–	52,965	52,965
Consideration payables	5,014	59	1,779	49,368	56,220	47,200
Finance lease payable	90	180	812	4,149	5,231	4,838
Bond payables	–	3,900	207,800	–	211,700	199,066
Bank borrowings	27,963	122,081	239,224	88,709	477,977	454,200
	293,959	133,520	477,440	142,226	1,047,145	1,001,321
At 31 December 2014						
Trade and other payables	39,695	–	–	–	39,695	39,695
Bills payable	7,206	18,150	–	–	25,356	25,356
Bank borrowings	670	106,953	180,351	16,511	304,485	295,535
	47,571	125,103	180,351	16,511	369,536	360,586

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, bond payables 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:

	2015 RMB'000	2014 RMB'000
Fixed rate financial assets/(liabilities)		
Bank borrowings	(204,000)	(128,000)
Bond payables	(199,066)	–
Consideration payables	(47,200)	–
Variable rate financial assets/(liabilities)		
Bank deposits	76,954	172,902
Bank borrowings	(250,200)	(167,535)
Finance lease payable	(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 each reporting period were outstanding for the whole year.

As at 31 December 2015, if interest rates had been 50 basis points (2014: 50 basis points) higher, with all other variables held constant, consolidated profit after tax for the year would have decreased by approximately RMB758,000 (2014: consolidated loss after tax for the year would have increased by approximately RMB882,000). If the interest rate had been 50 basis points (2014: 50 basis points) lower, with all other variables held constant, consolidated profit after tax for the year would have increased by approximately RMB824,000 (2014: consolidated loss after tax for the year would have decreased by approximately RMB882,000). 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.

(e) Categories of financial instruments at 31 December 2015

	2015 RMB'000	2014 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	148,077	206,111
Financial liabilities:		
Financial liabilities at amortised cost	1,001,320	360,586

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

7. FAIR VALUE MEASUREMENTS

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

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 2015, 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 the newly established subsidiary of the Company, 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 staple fibres.

For year ended 31 December 2014, the operations of Jiangxi Jinyuan and Treasure Resources represent the single operating and reportable segment of the Group.

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

8. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss:

	Yarns RMB'000	Staple Fibres RMB'000	Total RMB'000
Year ended 31 December 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:			
Losses from fire	(5,219)	–	(5,219)
Insurance claim income	10,732	–	10,732
Profit/(Loss) of reportable segments	3,276	(542)	2,734

	Yarns RMB'000	Staple Fibres RMB'000	Total RMB'000
Year ended 31 December 2014			
Revenue from external customers	846,554	–	846,554
Interest income	841	–	841
Interest expense	(16,909)	–	(16,909)
Depreciation and amortisation	(27,778)	–	(27,778)
Other material items of income and expense:			
Losses from fire	(52,163)	–	(52,163)
Profit/(Loss) of reportable segments	(49,167)	–	(49,167)

The segment revenue is the same as the Group's revenue for 2015 and 2014. Reconciliation of segment results reviewed by the CODM is as follows:

	2015 RMB'000	2014 RMB'000
Profit/(Loss) of reportable segments	2,734	(49,167)
Adjusted for income in relation to government grants	13,420	10,121
Unallocated income/(expense)	1,458	(9,997)
Administrative and other expenses	(1,750)	(3,821)
Taxation	(2,305)	2,036
Group's profit/(loss) for the year	13,557	(50,828)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

8. SEGMENT INFORMATION (Continued)

Geographical information

Over 99% (2014: 99%) of the Group's non-current assets were located in the PRC, accordingly, no related geographical information of non-current assets is presented.

Over 96% (2014: 99%) of the Group's revenue were derived from sales of polyester yarns, polyester-cotton blended yarns, cotton yarns, viscose yarns, grey and deep grey mélange yarns and cotton 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 2015 and 2014.

9. REVENUE

The following is an analysis of the Group's revenue from its major products during the years:

	2015 RMB'000	2014 RMB'000
Sales of polyester yarns	516,937	373,286
Sales of polyester-cotton blended yarns	473,451	393,029
Sales of cotton yarns	93,129	78,989
Sales of cotton	24,851	1,250
Sales of viscose yarns	14,202	–
Sales of grey and deep grey mélange yarns	180,229	–
	1,302,799	846,554

10. OTHER INCOME

	2015 RMB'000	2014 RMB'000
Interest income on bank deposits	1,524	930
Government grants (Note)	13,420	10,121
Income from scrap sales	7,399	3,869
Realised gain on financial assets at fair value through profit and loss	256	–
Rental income	476	287
Others	955	123
	24,030	15,330

Note: For the year ended 31 December 2015, government grants mainly represented subsidies of approximately RMB13,266,000 (2014: RMB9,971,000) 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 RMB13,266,000 (2014: RMB9,971,000) was recognised in the consolidated statement of profit or loss and other comprehensive income when the grants were received. The remaining approximately RMB154,000 (2014: RMB150,000) were related to government grants to the Group on purchase of 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

	2015 RMB'000	2014 RMB'000
Net foreign exchange gain	984	14
Loss on disposal of property, plant and equipment	(24)	(218)
	960	(204)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

12. GAIN/(LOSSES) 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/(losses) incurred as a result of the fire accident are summarised as follows:

	2015 RMB'000	2014 RMB'000
Loss on inventories		
Raw materials	–	(9,589)
Finished goods	–	(2,820)
	–	(12,409)
Loss on property, plant and equipment	(5,219)	(38,515)
Provision for restoration	–	(1,239)
	(5,219)	(52,163)
Insurance claim income	10,732	–
	5,513	(52,163)

13. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	30,682	16,909
Interest on bond payables	16,845	–
Interest on consideration payables	4,174	–
Finance leases charges	99	–
Other finance expenses	–	236
	51,800	17,145

14. INCOME TAX EXPENSE/(CREDIT)

	2015 RMB'000	2014 RMB'000
Current tax:		
PRC Enterprise Income Tax ("EIT")		
Provision for the year	–	2,082
Under-provision in prior year	68	132
Withholding tax on distributed earnings from a subsidiary	–	500
	68	2,714
Deferred tax (Note 34)	2,237	(4,750)
	2,305	(2,036)

No provision for Hong Kong Profits Tax for the years ended 31 December 2015 and 2014 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 starting 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, subject to annual review by the relevant tax authority. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the year ended 31 December 2015 and 2014.

Huachun, a subsidiary, has been recognised as a state-encouraged high-new technology enterprise starting from 2013, and the status is valid for a period of three years. Huachun is thus entitled to a preferential tax rate of 15% in 2013, 2014 and 2015, subject to annual review by the relevant tax authority. As such, the EIT rate for Huachun is a reduced tax rate of 15% for the year ended 31 December 2015 and 2014.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

14. INCOME TAX EXPENSE/(CREDIT) (Continued)

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

	2015 RMB'000	2014 RMB'000
Profit/(loss) before tax	15,862	(52,864)
Tax at the weighted average applicable tax rate at 15% (2014: 15%)	2,309	(7,930)
Tax effect of income not taxable for tax purpose	(3,260)	(838)
Tax effect of expenses not deductible for tax purpose	3,750	3,157
Tax effect of taxable temporary differences not recognised	(5,405)	–
Tax effect of deductible temporary differences not recognised	12	5,611
Tax effect of unused tax losses not recognised	2,896	–
Under-provision in prior year	68	–
Withholding taxes charged on dividend declared by Jiangxi Jinyuan	–	500
Withholding tax arising from undistributed profits of Jiangxi Jinyuan	1,935	(2,536)
Income tax expense/(credit) for the year	2,305	(2,036)

15. PROFIT/(LOSS) FOR THE YEAR

	2015 RMB'000	2014 RMB'000
The Group's profit/(loss) for the year is stated after charging the following:		
Auditor's remuneration		
– Audit	813	1,110
– Others	163	681
	976	1,791
Operating lease charges		
– Amortisation of prepaid lease payments	1,091	798
– Land and buildings	440	466
Amortisation of intangible asset	50	–
Cost of inventories sold	1,196,908	804,470
Depreciation	51,049	27,171

Cost of inventories sold includes staff costs and depreciation of approximately RMB135,675,000 (2014: RMB77,225,000) and RMB40,962,000 (2014: RMB22,363,000), respectively, which are included in the amounts disclosed separately above and in Note 16.

16. EMPLOYEE BENEFITS EXPENSE

	2015 RMB'000	2014 RMB'000
Employee benefits expense (excluding directors' emoluments):		
Salaries, bonuses and allowances	137,303	74,072
Retirement benefit scheme contributions	4,117	6,309
Other social security contributions	3,117	3,281
	7,234	9,590
	144,537	83,662

Five highest paid individuals:

The five highest paid individuals in the Group during the year included three (2014: two) 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 two (2014: three) individuals are set out below:

	2015 RMB'000	2014 RMB'000
Basic salaries and allowances	1,038	1,164
Retirement benefit scheme contributions	34	38
	1,072	1,202

Number of individuals

	2015	2014
The emoluments fell within the following band:		
Nil to HK\$1,000,000 (equivalent to RMB850,268)	2	3

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

17. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The emoluments paid to or receivable by each of the six (2014: seven) 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 benefits 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	122	–	–	122
– Mr. Nie Jianxin	122	–	–	122
– Ms. Zhang Baixiang	122	–	–	122
Total for 2015	488	2,131	40	2,659

17. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

Name of directors	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors				
– Mr. Zheng Hong	–	1,189	13	1,202
– Mr. Zheng Yongxiang	–	951	20	971
Non-executive director				
– Mr. Sze Irons BBS, JP	119	–	–	119
Independent non-executive directors				
– Ms. Chan Mei Bo, Mabel (resigned on 22 December 2014)	110	–	–	110
– Mr. Ng Wing Ka	119	–	–	119
– Mr. Nie Jianxin	119	–	–	119
– Ms. Zhang Baixiang (appointed on 27 November 2014)	11	–	–	11
Total for 2014	478	2,140	33	2,651

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 2015 and 2014.

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

No significant transactions, arrangements and 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

18. DIVIDENDS

	2015 RMB'000	2014 RMB'000
2014: Final dividend declared – HK1.0 cent per share	–	8,021

The Board of Directors of the Company does not recommend any dividend in respect of the year ended 31 December 2015 (2014: final dividend in respect of the year ended 31 December 2013 of HK1.0 cent).

19. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2014: 1,127,040,000) in issue during the year, as adjusted to reflect the bonus share issued during the year:

	2015 RMB'000	2014 RMB'000
Earnings/(Loss)		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	13,823	(50,828)
	2015 '000	2014 '000 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share calculation	1,252,350	1,127,040

No diluted earnings/(loss) per share has been presented as there were no potential dilutive shares outstanding for the years ended 31 December 2015 and 2014.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2014	279,571	342	363,801	2,765	7,266	34,912	688,657
Additions	3,381	–	5,140	160	574	–	9,255
Construction expenditure capitalised	–	–	–	–	–	21,165	21,165
Disposals	–	–	(9)	(110)	(704)	–	(823)
Write off due to fire loss (Note)	(490)	–	(39,190)	–	–	(132)	(39,812)
Transfer from construction in progress	–	–	36,440	–	–	(36,440)	–
At 31 December 2014 and 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 (Note)	(5,447)	–	–	–	–	–	(5,447)
Transfer from construction in progress	–	–	68,981	–	–	(68,981)	–
At 31 December 2015	586,475	342	653,634	7,958	8,923	17,244	1,274,576
ACCUMULATED DEPRECIATION							
At 1 January 2014	27,677	200	81,992	1,098	2,482	–	113,449
Charge for the year	8,318	114	17,535	321	883	–	27,171
Disposals	–	–	(8)	(98)	(163)	–	(269)
Write off due to fire loss (Note)	(20)	–	(1,277)	–	–	–	(1,297)
At 31 December 2014 and 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 (Note)	(228)	–	–	–	–	–	(228)
At 31 December 2015	54,106	342	128,947	1,970	4,303	–	189,668
CARRYING AMOUNT							
At 31 December 2015	532,369	–	524,687	5,988	4,620	17,244	1,084,908
At 31 December 2014	246,487	28	267,940	1,494	3,934	19,505	539,388

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

20. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note: During the year ended 31 December 2014, a loss on property, plant and equipment of approximately RMB38,515,000 was recognised due to a fire broken out at the warehouse of the completed Phase III of the production bases of the Group on 31 December 2014, causing damage primarily to plant and machinery and part of the building premises. During the year ended 31 December 2015, the Group has further written 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.

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

As at 31 December 2015, the carrying amount of property, plant and equipment pledged as security for the Group's (a) bills payable and bank borrowings and (b) bond payables amounted approximately to RMB580,015,000 (2014: RMB232,567,000) and RMB65,891,000 (2014: nil), respectively.

As at 31 December 2015, the carrying amount of property, plant and equipment held by the Group under finance lease amounted to approximately RMB6,026,000 (2014: nil).

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:

	2015 RMB'000	2014 RMB'000
At end of the year	46,527	34,887
Current portion	(1,093)	(776)
Non-current portion	45,434	34,111

All the Group's prepaid lease payments are located in the PRC.

As at 31 December 2015, prepaid lease payments with carrying amount of approximately RMB34,172,000 (2014: RMB17,426,000) and RMB2,545,000 (2014: nil) respectively were pledged as security for the Group's bank borrowings and bond payables.

22. INTANGIBLE ASSET

	Patent RMB'000
COST	
At 1 January 2014, 31 December 2014 and 1 January 2015	–
Acquisition of a subsidiary	167
At 31 December 2015	167
ACCUMULATED AMORTISATION	
At 1 January 2014, 31 December 2014 and 1 January 2015	–
Amortisation for the year	50
At 31 December 2015	50
CARRYING AMOUNT	
31 December 2015	117
31 December 2014	–

23. GOODWILL

	2015 RMB'000	2014 RMB'000
Cost		
At beginning of the year	–	–
Arising on acquisition of a subsidiary (Note 36)	34,829	–
At end of the year	34,829	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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:

	2015 RMB'000	2014 RMB'000
Sales of yarns: Huachun	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 (level 3 fair value measurements). The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rate and budgeted gross margin and turnover 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 turnover 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%. 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 15.43%.

24. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	42,079	18,607
Work in progress	13,773	7,455
Finished goods	85,330	54,298
	141,182	80,360

25. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	30,717	16,980
Advance payment to suppliers	10,753	–
Prepayments and other receivables	5,177	697
Value-added tax recoverable	7,651	–
	54,298	17,677

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 at the end of each reporting period, which approximated the respective revenue recognition dates.

	2015 RMB'000	2014 RMB'000
1–30 days	26,166	14,250
31–90 days	3,872	2,688
Over 90 days	679	42
	30,717	16,980

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, the 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 RMB4,551,000 (2014: RMB2,730,000) as at 31 December 2015 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

25. TRADE AND OTHER RECEIVABLES (Continued)

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

	2015 RMB'000	2014 RMB'000
Over 30 days	4,551	2,730

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

	2015 RMB'000	2014 RMB'000
USD	3,591	–
RMB	27,126	16,980
Total	30,717	16,980

26. BILLS RECEIVABLE

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

	2015 RMB'000	2014 RMB'000
1 – 30 days	4,490	5,148
31–60 days	1,560	2,873
61–90 days	4,121	1,266
91–120 days	2,000	300
121–150 days	2,535	500
Over 150 days	1,127	219
	15,833	10,306

Included in bills receivable as at 31 December 2015 was an amount of approximately RMB14,645,000 (31 December 2014: RMB9,407,000) 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 discounted to a bank with full recourse		Bills receivable endorsed to suppliers with full recourse	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Carrying amount of recognised financial assets	-	1,493	14,645	7,914
Carrying amount of corresponding liabilities not set-off	-	(1,493)	(14,645)	(7,914)

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

	2015 RMB'000	2014 RMB'000
Pledged bank deposits	36,195	6,704
Restricted bank deposit	20,059	-
Time deposit with original maturity less than three months	-	76,052
Cash and bank balances	41,182	90,637
	97,436	173,393

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

	2015	2014
Pledged bank deposits	0.01% – 1.30%	0.01% – 2.80%
Restricted bank deposit	-	N/A
Time deposit with original maturity less than three months	N/A	0.64%
Cash and bank balances	0.01% – 0.35%	0.01% – 0.35%

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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

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

	2015 RMB'000	2014 RMB'000
HKD	652	78,462
USD	3,508	2,452
RMB	93,276	92,479
	97,436	173,393

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.

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.

As at 31 December 2015, the pledged bank deposits, restricted bank deposit, time deposit and cash and bank balances of the Group's PRC subsidiaries denominated in RMB amounted to approximately RMB91,263,000 (2014: RMB87,940,000). 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

	2015 RMB'000	2014 RMB'000
Trade payables	107,758	27,705
Value-added tax payable	–	6,478
Other payables	12,110	3,330
Other tax payables	10,786	4,435
Accrual for salaries and wages	14,153	6,246
Other accrued charges	71,095	29,183
Payable for acquisition of property, plant and equipment	10,907	8,660
Deposits from customers	16,741	5,080
Dividend payables	243	243
Withholding tax payable (Note 36)	16,000	–
Consideration payables (Note 37)	8,652	–
	268,445	91,360

28. TRADE AND OTHER PAYABLES (Continued)

The following is an analysis of trade payables by age, presented based on the invoice date:

	2015 RMB'000	2014 RMB'000
1-30 days	53,863	21,864
31-90 days	50,205	5,473
Over 90 days	3,690	368
	107,758	27,705

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 invoice date:

	2015 RMB'000	2014 RMB'000
1-30 days	4,415	7,206
31-90 days	14,110	18,150
Over 90 days	34,440	-
	52,965	25,356

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

30. DEFERRED INCOME

	2015 RMB'000	2014 RMB'000
Government grants	8,349	6,115
Analysed as:		
Current liabilities	154	–
Non-current liabilities	8,195	6,115
	8,349	6,115

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

Government grants are recognised as deferred income in the consolidated statement of financial position when received. For the refund of purchase cost of land use rights and deed tax, they are transferred to profit or loss over the lease terms of the corresponding land use rights. For the refund of construction cost of the building premises, it is transferred to profit or loss over the estimated useful lives of building premises upon completion of the construction. These policies have resulted in a credit to income in current year of RMB154,000 (2014: RMB150,000). As at 31 December 2015, an aggregate carrying amount of RMB8,349,000 (2014: RMB6,115,000) remained to be amortised.

31. FINANCE LEASE PAYABLE

	Minimum lease payments		Present value of minimum lease payments	
	2015 RMB'000	2014 RMB'000	2015 RMB'000	2014 RMB'000
Within one year	1,082	–	940	–
In the second to fifth years, inclusive	4,149	–	3,898	–
	5,231	–	4,838	–
Less: Future finance charges	(393)	–	N/A	N/A
Present value of lease obligations	4,838	–	4,838	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(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. As at 31 December 2015, the effective borrowing rate was 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 HKD.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

32. BANK BORROWINGS

	2015 RMB'000	2014 RMB'000
Bank loans	454,200	294,042
Discounted bills with recourse	–	1,493
	454,200	295,535
Bank borrowings		
– Secured	373,200	230,700
– Unsecured	81,000	64,835
	454,200	295,535
The borrowings are repayable as follows:		
Within one year	359,100	280,535
More than one year, but not exceeding two years	19,000	15,000
More than two years, but not more than five years	60,100	–
	438,200	295,535
Carrying amount of bank loan that is repayable on demand due to breach of financial covenants (shown under current liabilities)	16,000	–
	454,200	295,535
Less: Amount due for settlement within 12 months (shown under current liabilities)	(375,100)	(280,535)
Amount due for settlement after 12 months	79,100	15,000

As at 31 December 2015, the secured bank borrowings were pledged by the Group's certain land use rights, property, plant and equipment, bank deposits and were guaranteed by a former owner of Huachun and third parties.

During the year ended 31 December 2015, Huachun had breached certain financial covenant terms in relation to the debt-asset ratio and current ratio requirements of Huachun which constitute an early repayment option by the bank. This bank loan with carrying amount of RMB16,000,000 was classified under current liabilities. The management of Huachun notified the bank upon becoming aware of the breach, full amount of this bank loan was subsequently repaid after 31 December 2015 with Huachun's existing working capital. Notwithstanding the above, the directors believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of Huachun.

32. BANK BORROWINGS (Continued)

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

	2015 RMB'000	2014 RMB'000
HKD	–	3,342
USD	–	1,493
RMB	454,200	290,700
Total	454,200	295,535

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

	2015	2014
Interest rate:		
Fixed-rate borrowings	4.50% – 7.20%	6.00% – 6.77%
Variable-rate borrowings	4.60% – 8.29%	6.16% – 7.00%

Bank loans of RMB204,000,000 (2014: RMB128,000,000) 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 value as at 31 December 2015.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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), a former owner of Huachun and a third party.

During the year, the Group acquired 100% equity interest in Huachun, the bond payables of Huachun in the acquisition are measured at their acquisition-date fair value and subsequently measured at amortised cost using the effective interest method at 8.92% per annum.

The directors estimate the fair value of the bond payables as at 31 December 2015 to be approximately RMB204,741,000, by discounting the future cash flows at the market interest rate of 4.75% (level 2 fair value measurements).

34. DEFERRED TAX

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

Deferred tax liabilities

	Fair value adjustments on business combination RMB'000	Undistributed earnings of the PRC subsidiary RMB'000	Total RMB'000
At 1 January 2014	–	4,835	4,835
Credit to profit or loss (Note 14)	–	(2,536)	(2,536)
At 31 December 2014 and 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	8,493	4,234	12,727

34. DEFERRED TAX (Continued)

Deferred tax assets

	Accelerated tax depreciation RMB'000	Tax losses RMB'000	Losses from fire RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	-	-	-	-	-
Credit to profit or loss (Note 14)	-	-	2,214	-	2,214
At 31 December 2014 and 1 January 2015	-	-	2,214	-	2,214
Acquisition of a subsidiary (Charge)/Credit to profit or loss (Note 14)	2,658 (97)	- 1,558	- (2,214)	- 176	2,658 (577)
At 31 December 2015	2,561	1,558	-	176	4,295

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. At 31 December 2014 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 RMB47,002,000 (2014: RMB15,439,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB10,389,000 (2014: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB36,613,000 (2014: RMB15,439,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB34,109,000 (2014: nil) that will expire after 5 years from the year of assessment they related to. Other tax losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

35. SHARE CAPITAL

	Number of shares		
	'000	HK\$'000	RMB'000
Ordinary shares of HK\$0.1 each			
Authorised:			
At 31 December 2014 and 31 December 2015	10,000,000	1,000,000	819,672
Issued and fully paid:			
At 1 January 2013 and 31 December 2013	1,012,500	101,250	82,899
Issue of shares on placing (Note i)	126,000	12,600	9,976
At 31 December 2014 and 1 January 2015	1,138,500	113,850	92,875
Issue of bonus shares (Note ii)	113,850	11,385	9,114
At 31 December 2015	1,252,350	125,235	101,989

Notes: (i) On 20 November 2014, arrangements were made for a private placement to independent private investors of 126,000,000 shares of HK\$0.1 each in the Company, at a price of HK\$0.8 per share representing a discount of approximately 8.05% to the closing market price of the Company's shares on 20 November 2014.

Pursuant to a placing agreement of the same date, there were more than six placees, being professional or institutional investors, subscribing for 126,000,000 new shares of HK\$0.1 each of the Company at a price of HK\$0.8 per share. The proceeds were used to finance the acquisition of Huachun and to provide additional working capital for the Company and its subsidiaries. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 12 May 2014 and rank pari passu with other shares in issue in all respects.

(ii) 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.

35. SHARE CAPITAL (Continued)

Capital management

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

The capital structure of the Group consists of net debts (which represent total debts include bank borrowings, bond payables 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 2015 and at 31 December 2014 was as follows:

	2015 RMB'000	2014 RMB'000
Total debts	658,104	295,535
Less: Cash and cash equivalents	(41,182)	(166,689)
Net debts	616,922	128,846
Equity attributable to the owners of the Company	446,711	432,888
Net debts and equity attributable to the owners of the Company	1,063,633	561,734

The increase in the capital structure during 2015 resulted primarily from the increase of net debts.

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 it demonstrates continuing compliance with the 25% limit throughout the year. As at 31 December 2015, 48.14% (2014: 48.14%) of the shares were in public hands.

The Group is subject to the maintenance of a specified financial requirement on its 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 31, 32 and 33; whereas consolidated tangible net worth consists of issued capital, share premium, statutory surplus, 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. However, the Company's subsidiary, Huachun had breached certain financial covenants of a loan agreement with a bank as disclosed in Note 32.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

36. ACQUISITION OF A SUBSIDIARY

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 during the period. 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 as 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 (Note 23)	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

36. ACQUISITION OF A SUBSIDIARY (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 required to settle in full on 5 January 2018. Included in consideration payables was an amount of RMB16,000,000 (Note 28) which should be withheld on and will be payable on behalf of the former shareholders of Huachun to the tax authority for their capital gain earned in this transaction.

The goodwill arising on the acquisition of Huachun is attributable to the anticipated future operating synergies from the business combination.

The fair value of the trade and other receivables, and bills receivable acquired are approximately RMB1,639,000 and RMB33,303,000 respectively.

Acquisition-related costs amounting to approximately RMB1,057,000 were recognised as expenses by the Group in 2014 and approximately RMB1,218,000 were borne by Huachun before the date of acquisition.

Huachun's contribution of revenue and results to the Group from the date of acquisition to the end of the reporting period are as follows:

	RMB'000
Revenue	527,244
Loss	(6,468)

If the acquisition had been completed on 1 January 2015, total Group revenue for the year would have been approximately RMB1,307,561,000, and profit for the year would have been approximately RMB13,365,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is intended to be a projection of future results.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

37. CONSIDERATION PAYABLES

	2015 RMB'000	2014 RMB'000
Consideration payables for the acquisition of Huachun	47,200	–
Analysed as:		
Current liabilities (Note 28)	8,652	–
Non-current liabilities	38,548	–
	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.

Interests are charged half yearly and are classified as current liabilities.

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

38. MAJOR NON-CASH TRANSACTION

Addition to property, plant and equipment during the year of RMB4,991,000 (2014: nil) was financed by a finance lease.

39. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	64,420	1,305

40. OPERATING LEASE COMMITMENT

As at 31 December 2015, the future minimum lease payments under a non-cancellable operating lease in respect of rented premises, which fall due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	470	64
In the second to fifth year inclusive	78	–
	548	64

Leases are negotiated for a lease term of two to three years with fixed rental and management fee over the terms of the relevant lease.

41. 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 schemes 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 (HK\$1,250 per month per employee prior to 1 June 2014) to the Scheme, which contribution is matched by employees.

The total contribution to retirement benefit scheme charged to consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015 are disclosed in Notes 16 and 17.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

42. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure the Group's bills payable, finance lease payable, bank borrowings and bond payables (see Notes 29, 31, 32 and 33):

	2015 RMB'000	2014 RMB'000
Property, plant and equipment	651,932	232,567
Prepaid lease payments	36,717	17,426
Pledged bank deposits	36,195	6,704
	724,844	256,697

43. RELATED PARTY TRANSACTIONS

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

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:

	2015 RMB'000	2014 RMB'000
Short-term benefits	3,378	3,398
Post-employment benefits	61	56
	3,439	3,454

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

As at 31 December 2015, included in accrual for salaries and wages was an amount of RMB56,000 (2014: RMB21,000) being accrued directors' remuneration which are unsecured, interest-free and settled in cash.

The Group's bonds are guaranteed by a close family member of the executive directors of the Company.

44. CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities (2014: nil).

45. 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 2015 and 2014. There are no share options outstanding as at 31 December 2015 and 2014.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

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

a) Statement of financial position of the Company

	NOTE	2015 RMB'000	2014 RMB'000
Non-current asset			
Investment in a subsidiary		45,986	45,986
Advances to a subsidiary (Note)		62,709	58,474
		108,695	104,460
Current assets			
Other receivables		112	160
Amount due from a subsidiary		80,000	–
Time deposits		–	76,052
Cash and bank balances		357	417
		80,469	76,629
Current liabilities			
Other payables		279	1,436
Amount due to a subsidiary		8,874	2,892
		9,153	4,328
Net current assets			
		71,316	72,301
Total assets less current liabilities			
		180,011	176,761
Capital and reserves			
Share capital		101,989	92,875
Reserves	46(b)	78,022	83,886
Total equity			
		180,011	176,761

Note:

Fair value adjustment of RMB45,986,000 relating to the interest-free advance to a subsidiary has been made at initial recognition based on an effective interest rate of 6.55% per annum, being the prevailing market borrowing rates for a similar instrument. The investment in a subsidiary includes the fair value adjustment made in 2014 and 2015.

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

Approved by the Board of Directors on 24 March 2016 and are signed on its behalf by:

Zheng Hong
DIRECTOR

Zheng Yongxiang
DIRECTOR

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

b) Reserve movement of the Company

	Share premium RMB'000 (Note 47(b)(i))	Special reserve RMB'000 (Note 47(b)(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2014	14,017	(81)	3,901	17,837
Total comprehensive income for the year	-	-	5,070	5,070
Shares issued, net of expenses	69,000	-	-	69,000
Dividend recognised as distribution	-	-	(8,021)	(8,021)
At 31 December 2014 and at 1 January 2015	83,017	(81)	950	83,886
Total comprehensive income for the year	-	-	3,250	3,250
Issue of bonus shares	(9,114)	-	-	(9,114)
At 31 December 2015	73,903	(81)	4,200	78,022

47. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2015

47. 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) Statutory 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 net profit, 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.

(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 cost 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 cost of shares issued by Treasure Resources in acquisition of Jiangxi Jinyuan and the paid up capital of Jiangxi Jinyuan.

48. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operations	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 cotton yarns and cotton
Jinyuan Textile Co., Ltd., Jiangxi [#]	PRC	RMB253,000,000	–	100%	Manufacturing and trading of polyester yarns, polyester-cotton blended yarns and cotton yarns
Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ^{#*}	PRC	RMB120,000,000	–	100%	Manufacturing and trading of polyester yarns, grey and deep grey mélange yarns, polyester-cotton blended yarns and cotton yarns
Jiangxi Xinyuan Special Fibres Company Limited ^{△*}	PRC	RMB35,000,000	–	51%	Aim at manufacturing and trading of polyester staple fibres (during the year this subsidiary was yet to commence business)

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

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

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

Xinyuan was established in the PRC on 5 December 2014 owed as to 51%, 26% and 23% by Jiangxi Jinyuan, 邵陽二紡機有限公司 and an individual respectively.

49. 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				2015 RMB'000
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	
Revenue	1,085,889	918,513	880,272	846,554	1,302,799
Cost of sales	(947,142)	(874,384)	(822,443)	(804,470)	(1,196,908)
Gross profit	138,747	44,129	57,829	42,084	105,891
Other income	4,481	23,400	21,218	15,330	24,030
Other gains and losses	(20,583)	(1,110)	(15)	(204)	960
Distribution and selling expenses	(12,938)	(13,388)	(11,942)	(12,400)	(25,858)
Administrative expenses	(20,061)	(23,118)	(22,741)	(28,366)	(42,874)
Gain/(losses) from fire, net	–	–	–	(52,163)	5,513
Finance costs	(20,156)	(13,525)	(11,154)	(17,145)	(51,800)
Profit/(loss) before tax	69,490	16,388	33,195	(52,864)	15,862
Income tax (expense)/credit	(8,852)	(15,318)	(12,153)	2,036	(2,305)
Profit/(loss) for the year attributable to owners of the Company	60,638	1,070	21,042	(50,828)	13,557
Earnings/(loss) per share					
Basic (RMB cents)	8.01	0.11	2.08	(4.96)	1.10
Diluted (RMB cents)	8.01	0.11	N/A	N/A	N/A

	As at 31 December				2015 RMB'000
	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	
ASSETS AND LIABILITIES					
Total assets	727,618	725,245	816,830	859,188	1,508,211
Total liabilities	(319,213)	(325,372)	(404,069)	(426,300)	(1,044,616)
	408,405	399,873	412,761	432,888	463,595
Equity attributable to:					
Owners of the Company	408,405	399,873	412,761	432,888	446,711
Non-controlling interests	–	–	–	–	16,884
Total equity	480,405	399,873	412,761	432,888	463,595