ANNUAL REPORT 2016

Grand Concord International Holdings Limited
廣豪國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

Stock Code: 844

ANNUAL REPORT **2016**

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Wang Bin (appointed on 12 October 2016)
Ms. Tian Ying (appointed on 12 October 2016)
Mr. Lam Tet Foo (appointed on 12 October 2016)

NON-EXECUTIVE DIRECTOR

Mr. Zhang Yanlin (appointed on 12 October 2016)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Dunkai (appointed on 12 October 2016)
Ms. Feng Xin (appointed on 12 October 2016)
Mr. Hu Quansen (appointed on 12 October 2016)

AUTHORISED REPRESENTATIVES

Mr. Wang Bin
Ms. Tian Ying

AUDIT COMMITTEE

Mr. Hu Quansen *(Chairman)*
Ms. Feng Xin
Mr. Xu Dunkai

REMUNERATION COMMITTEE

Mr. Xu Dunkai *(Chairman)*
Ms. Tian Ying
Mr. Hu Quansen

NOMINATION COMMITTEE

Mr. Wang Bin *(Chairman)*
Ms. Feng Xin
Mr. Hu Quansen

COMPANY SECRETARY

Mr. Lee Yin Sing, *CPA*

AUDITOR

SHINEWING (HK) CPA Limited

LEGAL ADVISER

As to Hong Kong law:
Loeb & Loeb LLP

REGISTERED OFFICE

P.O. Box 3340
Road Town
Tortola
British Virgin Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit B, 15/F, 78 Hung To Road
Kwun Tong
Kowloon
Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 102 Renmin Dong Road
Zhucheng City
Shandong Province
The PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE BVI

Tricor Services (BVI) Limited
P.O. Box 3340, Road Town, Tortola
British Virgin Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China,
Zhucheng sub-branch
The Hongkong and Shanghai Banking
Corporation Limited

LISTING INFORMATION

Place of listing: Main Board of
The Stock Exchange of Hong Kong Limited
Stock Code: 844

COMPANY'S WEBSITE

www.grandconcord.com

FINANCIAL HIGHLIGHTS

KEY FINANCIAL INFORMATION FOR THE LAST FIVE YEARS

	For the year ended 31 December/As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Key Financial Information					
Revenue	**334,297**	389,317	453,476	543,788	475,764
Gross profit	**62,841**	75,179	111,497	121,782	116,091
(Loss) profit before tax	**(8,119)**	(1,915)	41,527	44,358	53,671
(Loss) profit for the year	**(12,539)**	(6,954)	25,671	24,375	35,490
Total comprehensive (expense) income for the year	**(9,546)**	(7,461)	25,666	22,994	35,347
Non-current assets	**212,396**	226,787	237,183	218,868	177,562
Current assets	**219,196**	258,097	216,206	186,477	155,369
Current liabilities	**139,915**	183,698	183,353	155,977	101,048
Net current assets (liabilities)	**79,281**	74,399	32,853	30,500	54,321
Total assets	**431,592**	484,884	453,389	405,345	332,931
Total assets less current liabilities	**291,677**	301,186	270,036	249,368	231,883
Total equity	**291,068**	300,614	270,036	244,370	231,883
Cash and cash equivalents	**113,101**	76,175	51,925	30,949	24,134
Key Financial Ratios					
Gross profit margin	**18.8%**	19.3%	24.6%	22.4%	24.4%
Net profit margin	**–**	–	5.7%	4.5%	7.5%
Gearing ratio[1]	**20.4%**	20.1%	19.5%	18.0%	9.5%
Current ratio	**1.6**	1.4	1.2	1.2	1.5
Trade receivables turnover days	**71**	76	61	45	38
Inventory turnover days	**69**	66	63	48	56

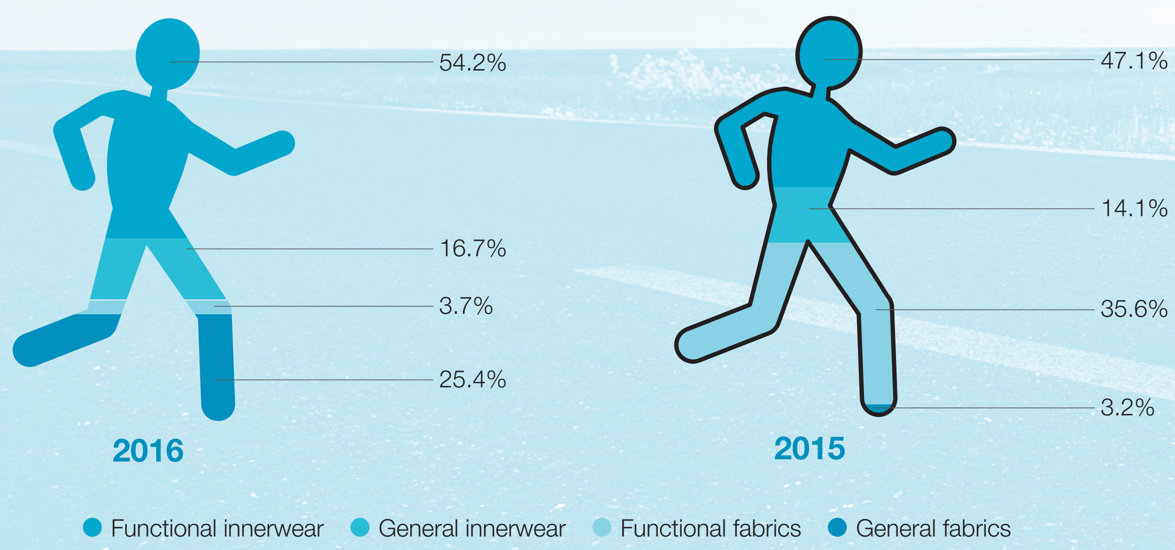
Note:

1. Gearing ratio represents the ratio between total borrowings and total assets.

FINANCIAL HIGHLIGHTS

REVENUE OF THE GROUP ANALYSED BY PRODUCT CATEGORIES

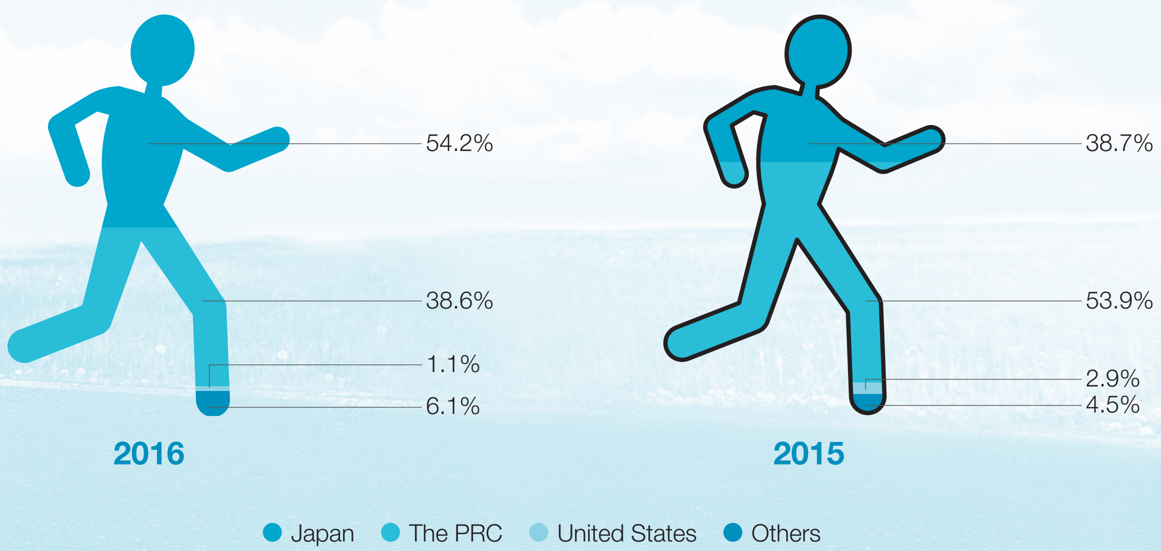
	For the year ended 31 December			
	2016		2015	
	RMB'000		RMB'000	
Revenue of the Group by products				
Fabrics products				
General fabrics	**85,003**	**25.4%**	12,609	3.2%
Functional fabrics	**12,279**	**3.7%**	138,442	35.6%
Sub-total	**97,282**	**29.1%**	151,051	38.8%
Innerwear products				
General innerwear	**55,690**	**16.7%**	54,865	14.1%
Functional innerwear	**181,325**	**54.2%**	183,401	47.1%
Sub-total	**237,015**	**70.9%**	238,266	61.2%
Total	**334,297**	**100%**	389,317	100%



FINANCIAL HIGHLIGHTS

REVENUE OF THE GROUP ANALYSED BY REGIONAL DISTRIBUTION

	For the year ended 31 December			
	2016		2015	
	RMB'000		RMB'000	
Revenue of the Group by regional distribution				
Japan	**181,254**	**54.2%**	150,637	38.7%
The PRC	**129,004**	**38.6%**	209,942	53.9%
United States	**3,553**	**1.1%**	11,450	2.9%
Others	**20,486**	**6.1%**	17,288	4.5%
Total	**334,297**	**100%**	389,317	100%



CHAIRMAN' S STATEMENT

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Grand Concord International Holdings Limited (the "Company", hereinafter together with its subsidiaries referred to as the "Group"), I would like to present to all shareholders the audited consolidated results of the Group for the year ended 31 December 2016 (the "Year under Review").

In 2016, influenced by the Black Swan incident, the weakening recovery of the global economy and the slowdown in economic momentum of the Asia countries, the manufacturing industry and the import and export trade were stuck in a dilemma. As for China, there were still many problems in the development of Chinese economy, such as the export recession, the sluggish domestic demand and the excess capacity. The foreign trade and investment sector was still weak, the growth momentum for global trade was flagging, and external demand has been unable to effectively promote China's economic growth. Although the Chinese government was trying to increase spending through various incentives to stimulate domestic demand growth, but affected by various structural factors such as the excess capacity, the export recession and the sluggish domestic demand, the results was still limited. During the year under review, the Group recorded a turnover of approximately RMB334.3 million, representing a decrease of approximately 14.1% as compared with that of 2015. The loss attributable to shareholders of the Group also increased to approximately RMB12.5 million. Gross profit decreased by approximately 16.4% to approximately RMB62.8 million. Gross profit margin slightly decreased to approximately 18.8%. The turnover of knitted fabrics and innerwear products were RMB97.3 million and RMB237.0 million respectively.

According to the Statistical Communiqué of the People's Republic of China on the 2016 National Economic and Social Development issued by the National Bureau of Statistics of China, the export of textile yarns, fabrics and articles in China amounted to approximately RMB692.5 billion, representing a slight increase of 1.9% as compared with that of last year; the export of clothes and clothing accessories amounted to approximately RMB1,041.3 billion, representing a decrease of 3.7% as compared with that of last year. However, as the cost of labour force, raw materials and energy rises sharply in China -- the world's leading manufacturing country of textile products, international textile buyers are tending to exit from the Chinese market. In major exporting markets of China's knitted fabrics including EU, USA and Japan, the export volume of knitted fabrics to the aforesaid countries declined by 8.95% to approximately RMB267.094 billion in 2016. The market changes at home and abroad and the fierce international competition are continuously testing the tenacity and endurance of Chinese textile enterprises and the overall industry development.

CHAIRMAN' S STATEMENT

In the Group's opinion, China's textile market will maintain the fierce competition situation, while the operating market will remain unsteady. In face of the complicated macro-environment, we will continue keeping a prudent eye on economic trend, policy and decree in Mainland China; however, we believe the increasing consumption power of the middle class in China will be conducive to boosting the growth of Chinese economy and creating opportunities for us. Moreover, in response to the probable occurrence of the U.S. trade protectionism, the Group had begun to optimize its customer base portfolio since 2015, turned to develop the Japanese and European markets, and suspended the investment in production equipment and R&D to reserve the financial flexibility and cope with market changes. Meanwhile, the Group also responded to the national "One Belt, One Road" policy and develop the Myanmar market resolutely. In 2015, the Group acquired the entire equity interest in Myanmar Win Glory International Manufacturing Company Limited ("Win Glory"), including the production plant with the gross floor area of approximately 2,000 square meters and the annual production capacity of approximately 2.4 million pieces. The sales order in Myanmar remained stable, successfully contributing to revenues during the year under review. Under the background of more closely economic and trade integration in ASEAN, we estimate the business proportion in Myanmar will further increase, and become an important cornerstone for the Group's long-term and sustainable profitability.

Looking into the future, the Group will continue performing our social responsibility, execute existing business development strategy, keep optimizing the customer portfolio, duly and properly develop products catering for the market trends and requirements, make full use of the existing international sales and production allocation advantages, and devote to further improving the Group's financial performance. On the other hand, considering all kinds of challenges confronted by the textile and garment industry, in order to further optimize our profitability, the Group will positively seek after investment opportunities, and hope to create more considerable benefits for shareholders through diversified businesses.

On behalf of the Board, I hereby express my heartfelt thanks to the staff of the Group for their efforts and contributions, and to all shareholders, investors and all customers for their tremendous support. We'll make unremitted efforts to promote the Group's business growth and to create reasonable values for our shareholders.

Wang Bin
Chairman

30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

As adversely impacted by international issues like Brexit and the U.S. presidential election, the global economy remained weak in 2016. China's GDP growth also slowed down to 6.7% only. In light of the market changes and fierce competition at home and abroad, China's textile industry stagnated with its slow growth. According to data compiled by the Ministry of Industry and Information Technology of the PRC (MIIT), the added value of the textile industry increased by 4.9% on a year-on-year basis in 2016 with the steady operation in production; the sales-output ratio of the textile industry reached 98.4%, and that of the garment manufacturing industry reached 97.7%; however, the delivery value of textile exports declined 0.9% on a year-on-year basis. Due to the soaring of wages and raw materials and energy costs, China has lost its price advantage as the world factory as before, so more and more international textile buyers have gradually turned to suppliers in other regions. Meanwhile, the rising of the textile industry in Southeast Asian countries in recent years has nibbled the market share of China's textile and garment industry worldwide, and the overall situation of China's textile industry was less than optimistic in 2016.

BUSINESS REVIEW

The Group is a leading vertically-integrated manufacturer of functional fabrics and innerwear products which are sold to numerous famous brands in the world. The Group is also an OEM innerwear supplier of numerous major international clothing brands, and operates production plants in China and Myanmar. Despite the increasingly downward pressure in the Chinese and global economies, the Group recorded comparatively stable results during the year under review, with a decrease in turnover of approximately 14.1% to approximately RMB334.3 million, which led to a loss of approximately RMB12.5 million in the year (Turnover in 2015: RMB389.3 million). During the year under review, the Group's revenues from functional fabrics and functional innerwear were approximately RMB12.3 million and RMB181.3 million, respectively; and revenues from general fabrics and general innerwear were approximately RMB85.0 million and RMB55.7 million, respectively. The plant in Myanmar continued to receive satisfactory orders on garments, which provided solid support to the production capacity of the Group's innerwear products.

During the year under review, the Group also continued to restructure and optimise its existing customer base, so as to maintain its profitability in the long run. In view of the turmoil in global political and economic patterns, the Group also reasonably adjusted the share of revenue from various markets based on the consumption power of each market. The Group has flexibly scaled down the importance of the Chinese market to withstand the pressure from the short-term economic slowdown and currency depreciation in China. Meanwhile, the Group reallocated its resources to the adjacent Southeast Asian region as well as Europe and Japan where the economies were relatively stable so as to maintain the Group's business. The Group is also looking forward to market quality functional fabrics and innerwear products to new markets in future, which would reinforce the Group's business foundation and maintain a reasonable gross margin.

During the year under review, the Group proactively adjusted the production capacity of its plants in various regions to cope with market changes. Win Glory, the production plant acquired in late 2015 in Myanmar with a gross floor area of approximately 2,000 square meters and an annual production capacity of approximately 2.4 million pieces, has successfully received orders on a continual basis during the year under review. Meanwhile, as positively driven by the "One Belt One Road" policy, the Group is confident that the economic and trading relationships between China and ASEAN will be even closer. Therefore, the Group has been proactively seeking appropriate investment opportunities for the production plants located in those regions, particularly in Myanmar, to grasp the current opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The following table sets forth a breakdown of the Group's revenue by knitted fabrics and innerwear products and as a percentage of the Group's total revenue for the year ended 31 December 2016, with corresponding comparative figures for the year ended 31 December 2015:

	Year ended 31 December			
	2016	**2016**	2015	2015
	RMB'000	**%**	RMB'000	%
Knitted fabrics				
General fabrics	**85,003**	**25.4**	12,609	3.2
Functional fabrics	**12,279**	**3.7**	138,442	35.6
Sub-total	**97,282**	**29.1**	151,051	38.8
Innerwear products				
General innerwear	**55,690**	**16.7**	54,865	14.1
Functional innerwear	**181,325**	**54.2**	183,401	47.1
Sub-total	**237,015**	**70.9**	238,266	61.2
Total	**334,297**	**100.0**	389,317	100.0

For the year ended 31 December 2016, the Group recorded a revenue of approximately RMB334.3 million (2015: RMB389.3 million), representing a decrease of approximately RMB55.0 million, or approximately 14.1%. The sales volume of general fabrics, functional fabrics, general innerwear and functional innerwear for the year ended 31 December 2016 were approximately 1,277 tons, 1,093 tons, 4.6 million pieces and 11.7 million pieces, respectively (2015: approximately 300 tons, 1,845 tons, 4.4 million pieces and 12.6 million pieces, respectively). The decrease of revenue was mainly due to the decrease in sales of fabrics products from approximately RMB151.1 million in 2015 to approximately RMB97.3 million in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales of knitted fabrics amounted to approximately RMB97.3 million (2015: RMB151.1 million), representing approximately 29.1% (2015: 38.8%) of the total revenue for the year ended 31 December 2016. The decrease in sales of knitted fabrics was mainly due to the slowdown in economic growth in China. The sales volume and sales of functional knitted fabrics decreased by approximately 40.8% and 91.1% to approximately 1,093 tons and RMB12.3 million, respectively, for the year ended 31 December 2016 (2015: 1,845 tons and RMB138.4 million, respectively). The knitted fabrics products were mainly distributed to branded customers in China. Facing a sluggish demand and economic environment, customers tend to order general fabrics instead of functional fabrics. The orders of general fabrics increased in 2016 and the sales and sales volume of general fabrics increased to approximately RMB85.0 million and 1,277 tons (2015: approximately RMB12.6 million and 300 tons). As the average unit selling price of general fabrics products is lower than that of functional fabrics products, even though the increase in sales volume of general fabrics products overcame the decrease in sales volume of functional fabrics products, the total sales of fabrics products decreased by RMB53.8 million to RMB97.3 million for the year end 31 December 2016.

Sales of innerwear products amounted to approximately RMB237.0 million (2015: RMB238.3 million), representing approximately 70.9% (2015: 61.2%) of the total revenue for the year ended 31 December 2016. The performance of innerwear products was relatively steadier, a slight decrease in sales of innerwear products in the amount of approximately RMB1.3 million, or approximately 0.5%, for the year ended 31 December 2016 was noted. The sales volume of general innerwear slightly increased from approximately 4.4 million pieces in 2015 to approximately 4.6 million pieces in 2016. The increase in the sales of general innerwear was mainly due to the increase in sales to certain new customers in Europe. Meanwhile, the sales volume of functional innerwear slightly decreased from approximately 12.6 million pieces in 2015 to approximately 11.7 million pieces in 2016. The decrease in the sales volume was mainly due to the sluggish demand in China, which influenced the sales of innerwear products in domestic market. The overall sales volume decreased to approximately 16.3 million pieces in 2016 (2015: approximately 17.0 million pieces), although the average unit selling price of the innerwear products slightly increased, and resulted in a steady sales amount in 2016 when comparing that in 2015.

Cost of sales

Cost of sales decreased by approximately 13.6% from approximately RMB314.1 million for the year ended 31 December 2015 to approximately RMB271.5 million for the year ended 31 December 2016. The average unit production costs of innerwear products and knitted fabrics products of the Group for the year ended 31 December 2016 decreased when compared to the unit production cost in the same period in 2015. The decrease in the unit cost was mainly due to the decrease in raw material costs. The decrease in the overall cost of sales was mainly due to the decrease in sales volume and unit production costs.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB12.3 million, or approximately 16.4%, from approximately RMB75.2 million for the year ended 31 December 2015 to approximately RMB62.8 million for the year ended 31 December 2016. The Group's gross profit margin slightly decreased from approximately 19.3% for the year ended 31 December 2015 to approximately 18.8% for the year ended 31 December 2016 mainly due to the decrease in the sales volume of the Group's functional products, which normally contributed to a higher gross profit margin when comparing with the general products.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's gross profit and gross profit margins by products for the year ended 31 December 2016, with corresponding comparative figures for the year ended 31 December 2015, are as follows:

	Year ended 31 December			
	2016 Gross profit RMB'000	**2016 Gross profit margins %**	2015 Gross profit RMB'000	2015 Gross profit margins %
Knitted fabrics				
General fabrics	**6,207**	**7.3**	1,206	9.6
Functional fabrics	**1,912**	**15.6**	23,845	17.2
Sub-total	**8,119**		25,051	
Innerwear products				
General innerwear	**6,774**	**12.2**	5,944	10.8
Functional innerwear	**47,948**	**26.4**	44,184	24.1
Sub-total	**54,722**		50,128	
Total	**62,841**	**18.8**	75,179	19.3

Other income and other gains

Other income and other gains amounted to approximately RMB3.3 million (2015: RMB6.9 million) for the year ended 31 December 2016 which were mainly exchange gain, interest income and sales of scarp materials. The decrease in other income and other gains was mainly due to the decrease in gain in exchange difference derived from the depreciation of RMB. For the year ended 31 December 2015, approximately RMB4.4 million of exchange gain was recorded. For the year ended 31 December 2016, the exchange rate of RMB to USD was relatively steady, an exchange gain of RMB0.6 million was recorded and thus the overall other income and other gains decreased.

MANAGEMENT DISCUSSION AND ANALYSIS

Change in fair value in respect of the Convertible Bonds

On 20 May 2015, the Group issued convertible bonds (the "Convertible Bonds") in the aggregate principle amount of up to HK$50 million. The Convertible Bonds represent a combined financial instrument containing two components: (i) a bond liability; and (ii) an embedded derivative representing a conversion option in foreign currency. In accordance with HKFRS, a bond liability of approximately RMB36.7 million (net of transaction costs of approximately RMB2.6 million) was recognised and the liability under the embedded conversion option of approximately RMB14.5 million was recognised at the initial recognition date.

During the year ended 31 December 2015, the Convertible Bonds with an aggregate principal amount of approximately HK$44.3 million were converted into 31,947,330 ordinary shares of the Company with no par value at the conversion price of HK$1.386 per share.

As at 31 December 2015, the bond liability and the liability under the embedded conversion option were approximately RMB4.4 million and RMB0.1 million, respectively, and we recognised a loss of approximately RMB11.2 million on changes in fair value of the derivative financial instrument for the year ended 31 December 2015.

For the year ended 31 December 2016, the outstanding Convertible Bonds matured, and the amount was repaid upon maturity. No bond liability or liability under the embedded conversion option was noted as at 31 December 2016.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB2.1 million to approximately RMB8.9 million (2015: RMB11.0 million) for the year ended 31 December 2016. Selling expenses mainly represented the transportation expenses, salaries and commission to the sales staff. As the sales of the Group decreased, the selling expenses for the year ended 31 December 2016 decreased accordingly.

Administrative expenses

Administrative expenses increased to approximately RMB60.7 million (2015: RMB56.4 million) for the year ended 31 December 2016. For the year ended 31 December 2016, legal and professional fees of approximately RMB4.6 million were incurred (2015: RMB1.3 million). In 2016, a transaction involving the Company's shares, which resulted in a mandatory unconditional cash offer, was conducted. The increase in legal and professional fees was mainly due to the advisory services and legal consultation expenses the Company paid during the course of the transaction. Furthermore, there was an impairment of goodwill of approximately RMB1.0 million in 2016 (2015: Nil).

Finance costs

Finance costs decreased to approximately RMB4.7 million (2015: RMB5.4 million) for the year ended 31 December 2016 primarily due to the decrease in average bank borrowing during the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss before tax

The Group's loss before tax was approximately RMB8.1 million (2015: RMB1.9 million) for the year ended 31 December 2016 primarily due to the decrease in revenue and gross profit. The sales of functional knitted fabrics decreased from RMB138.4 million in 2015 to RMB12.3 million in 2016, which contributed to a fall of gross profit of RMB21.9 million in 2016. Such decrease in gross profit resulted in an increase in loss before tax.

Income tax expense

Income tax expense decreased to approximately RMB4.4 million (2015: RMB5.0 million) for the year ended 31 December 2016. The Group's effective tax rate for the year ended 31 December 2016 was approximately negative 54.4%, as compared to approximately negative 263.1% for the year in 2015.

Loss for the year and loss margin

The Group's loss for the year increased by approximately RMB5.6 million, from approximately a loss of RMB7.0 million for the year ended 31 December 2015, to a loss of approximately RMB12.5 million for the year ended 31 December 2016. The increase in the loss was mainly due to the decrease in gross profit of approximately RMB12.3 million for the year ended 31 December 2016 as mentioned in the above paragraphs.

Inventories

The inventory balances decreased to approximately RMB44.5 million as at 31 December 2016 (2015: RMB58.4 million).

The average inventory turnover days increased to approximately 69 days (2015: 66 days) for the year ended 31 December 2015.

Trade and bills receivables

Trade receivables decreased to approximately RMB48.3 million (2015: RMB82.3 million) as at 31 December 2016.

The average trade receivables turnover days decreased to approximately 71 days (2015: 76 days) for the year ended 31 December 2016 as the proportion of the sales to domestic customers, to whom we usually granted longer credit terms, decreased. The trade receivables turnover days still fell within the credit terms granted to the customers of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Trade and bills payables

Trade and bills payables decreased to approximately RMB31.9 million (2015: RMB62.2 million) as at 31 December 2016. The average turnover days for trade payables slightly decreased to approximately 63 days (2015: 73 days) for the year ended 31 December 2016 which were in line with the trade credit periods given by the suppliers of the Group.

Liquidity and financial resources

The Group's principal sources of working capital included cash flow generated from the sale of its products and bank borrowings. As at 31 December 2016, the Group's current ratio (calculated as current assets divided by current liabilities) was 1.57 (as at 31 December 2015: 1.41). As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB109.9 million (as at 31 December 2015: RMB76.2 million) and short-term bank loans of approximately RMB88.0 million (as at 31 December 2015: RMB97.4 million). As at 31 December 2016, the Group's gearing ratio (calculated as total debts as at year end divided by total assets for the year x 100%, while debts are defined to include current and non-current interest-bearing borrowings) measured on the basis of total bank loans was approximately 20.4%, as compared to approximately 20.1% as at 31 December 2015.

As at 31 December 2016, the Group had fixed rate bank loans of RMB40.0 million (2015: RMB40.0 million) and variable rate bank loans of approximately RMB48.0 million (2015: RMB57.4 million). The effective interest rate on the Group's fixed rate bank borrowings was approximately 5.00%, and the effective interest rates for the Group's variable rate bank borrowings ranged from 4.57% to 6.18% per annum as at 31 December 2016 (2015: fixed rate: 4.91; variable rates: 4.57% to 6.18% per annum). During the year under review, there was no material change to the Group's funding and treasury policy.

The majority of the Group's funds have been deposited in banks in the PRC and licensed banks in Hong Kong. The management believes that the Group possesses sufficient cash and cash equivalents to meet its commitments and working capital requirements in the next financial year.

The Group continues to implement prudent financial management policies and monitor its capital structure based on the ratio of total liabilities to total assets.

Interest rate and foreign currency exposure

The Group is exposed to cash flow interest rate risks in relation to variable rate interest-bearing borrowings. The restricted bank deposits and bank balances also expose the Group to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates. The management considers that the exposure of the restricted bank deposits and bank balances to cash flow interest rate risk is not significant as the Group does not anticipate significant fluctuation in the interest rate on bank deposits. To mitigate the impact of interest rate fluctuations, the Group will manage the interest expenses by financing with both fixed and variable rate debts, and will continually assess and monitor the Group's exposure to interest rate risk and will consider other necessary actions when significant interest rate exposure is anticipated.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is exposed to foreign currency risk. A significant proportion of the Group's revenue was denominated in USD and certain trade and other receivables, cash and bank balances, trade and other payables and interest-bearing borrowings are denominated in USD, Japanese yen and HK$, respectively, while substantial operating expenses are denominated in RMB, and the Group's reporting currency is RMB.

The Group does not have a foreign currency hedging policy. In the event of currency fluctuations, the Group may have to increase its product pricing to compensate for the increase in cost of production. This would lower the Group's market competitiveness, on a price basis, for its products and could result in a decrease in revenue. In the future, the management will monitor foreign exchange exposure and will consider hedging or factoring significant foreign currency exposure should the need arise.

Contingent liabilities

As at 31 December 2016, the Group had no material contingent liabilities.

Charges on group assets

As at 31 December 2016, the Group's bank loans were secured by the Group's machinery, buildings and land use rights of carrying amounts of approximately RMB8.5 million, RMB84.0 million and RMB11.8 million, respectively (as at 31 December 2015: RMB10.1 million, RMB90.0 million and RMB12.1 million, respectively). As at 31 December 2016, the Group also pledged its bank deposits of approximately RMB3.2 million (as at 31 December 2015: RMB16.0 million) and nil bills receivables (as at 31 December 2015: RMB4.0 million) to secure short-term bills payables.

HUMAN RESOURCES

As at 31 December 2016, the Group employed approximately 2,300 employees (2015: 2,200). The total staff costs (excluding directors' emoluments) of the Group for the year ended 31 December 2016 were approximately RMB92.4 million (31 December 2015: RMB88.9 million). Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. The Group conducts periodic reviews for the employees and their salaries and bonuses are performance related. The Group has neither experienced any significant problems with its employees or disruptions to its operations due to labour disputes, nor has it experienced any difficulties in the recruitment and retention of experienced employees. The Group maintains a good relationship with its employees.

FINAL DIVIDEND

No payment of a final dividend for the year ended 31 December 2016 was recommended by the Board (2015: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS

No material acquisitions and disposals by the Group were noted during the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECT

In September 2016, the Ministry of Industry and Information Technology of the PRC ("MIIT") released the Textile Industry Development Planning (2016-2020) ("Five-Year Plan for Textile Industry"), which clearly specified that the textile industry is a traditional pillar industry in China and is an industry important to livelihood and for creating new globalisation advantages. On the other hand, it is also an industry that combines technology with fashion and integrates apparel consumption with industrial use, and the textile products for industrial use will be taken as one of the key development fields of the textile industry. The Five-Year Plan for Textile Industry set year 2017 as a critical year for China to promote the construction of a powerful textile country, as well as a time for further advancing the supply-side structural reform in China. China's macro-economy is expected to become more stable and better, and will become an important support for development of the entire textile and garment industry. In light of the new situation in 2017, China's textile industry will fully leverage on the resources in domestic and foreign markets, advocate technological transformation to promote innovative development, boost lean development by virtue of intelligent manufacturing, and endeavour to achieve the goal of constructing a powerful textile country.

Meanwhile, the Central Economic Working Conference has reaffirmed its great determination in implementing the "One Belt One Road" strategy, and to actively promote the multinational layout of China's textile industry, advocate endogenous impetus and mobilise internal demands. However, the Group is of the view that China's textile industry might be confronted with more unforeseen challenges arising from anxiety and strain in the internal and external environment that have been ambushed for a long period under the new economic landscape. Moreover, economic uncertainty and operational risks will be further increased due to the cluster of international political risks. The Group expects to better leverage its one-stop advantage, capitalise its strengths in different sections throughout the industry chain to cope with the changing market in order to stabilise its business development with a practical attitude, and to more reasonable returns for shareholders.

In light of the challenging business environment of the garment and textile industry, in addition to pursuing the Group's own strategies to improve the core competitiveness of the existing business, the Board has reviewed the operations of the Group and will actively explore other business or investment opportunities in the market. The Board believes that the strategy of business diversification will create new revenue streams for the Group, improve its financial performance, which would further enhance shareholder's value.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. WANG Bin, aged 52, is a representative of the Twelfth National People's Congress of the PRC, a doctoral supervisor and a part-time professor at the Southwestern University of Finance and Economics, as well as a PRC certified public accountant. He received his doctorate degree in economics from Southwestern University of Finance and Economics in June 2003. Mr. Wang Bin had assumed different positions in government authority and state-owned enterprise including the deputy director of State-owned Assets Supervision and Administration Commission of the State Council of Sichuan Province in the PRC and the chairman of Sichuan Development Holdings Co., Ltd.* (四川發展(控股)有限責任公司). Mr. Wang Bin has been serving as the vice chairman of Hainan Haide Industry Co., Ltd (海南海德實業股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 000567), since October 2015 and served as general manager concurrently from October 2015 to September 2016.

Mr. Wang has entered into a service agreement with the Company under which he acts as an executive director of the Company for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such service agreement, Mr. Wang will receive from the Company a director's fee of HK$1,200,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and his duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Mr. Wang for his directorship in the Company.

Ms. TIAN Ying, aged 52, is a senior accountant. She graduated from Dongbei University of Finance and Economics in July 1988 with a bachelor's degree in statistics. She graduated from Hong Kong Baptist University in November 2012 with a master's degree in accounting and finance. In March 2015 she was appointed as the chairlady at Huaxing Power Co., Ltd.* (華興電力股份公司). Before that, Ms. Tian had worked in Beijing Sanjili Energy Co., Ltd. (北京三吉利能源股份有限公司) for more than 15 years and had served in various positions, including its chief accountant and deputy general manager.

Ms. Tian has entered into a service agreement with the Company under which she acts as an executive director of the Company for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such service agreement, Ms. Tian will receive from the Company a director's fee of HK$1,200,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and her duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Ms. Tian for her directorship in the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. LAM Tet Foo, aged 60, graduated from the National University of Singapore in June 1982 with a bachelor's degree of civil engineering, and from the University of South Australia in October 1995 with a master's degree in business administration. From 2005 to 2008, he held the position of general manager cum company director in PT Belaputera Intiland. Between 2008 and 2010, he served as the general manager of Shanghai Unifront Hotel & Property Management Co., Ltd.* (上海優孚酒店管理有限公司). From 2010 to 2011, Mr. Lam Tet Foo was a project director in Altus Construction Consultancy (Shanghai) Limited (艾達時建築諮詢(上海)有限公司). Mr. Lam Tet Foo also served as the general manager of the project management department of Sino-Singapore Tianjin Eco-City Investment and Development Co., Ltd. (中新天津生態城投資開發有限公司) from 2011 to 2014. Between April and November 2015, he served as the deputy general manager at Huaying Petrochemical Co., Ltd.* (華瀛石油化工有限公司), and since December 2015 he has been serving as the vice president of Wintime Holding.

Mr. Lam has entered into a service agreement with the Company under which he acts as an executive director of the Company for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such service agreement, Mr. Lam will receive from the Company a director's fee of HK$1,000,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and his duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Mr. Lam for his directorship in the Company.

NON-EXECUTIVE DIRECTORS

Mr. ZHANG Yanlin, aged 48, graduated from Zhongnan University of Finance and Economics in July 1990 with a bachelor's degree in economics. He served as the general manager of Shenzhen Hua Sheng Investment Development Co., Ltd. (深圳華晟投資發展有限公司) from July 2002 to October 2004. From August 2002 to November 2004, he held the position of supervisor at MyHome Real Estate Development Group Co., Ltd. (美好置業集團股份有限公司) (previously known as Celebrities Real Estate Development Group Co., Ltd. (名流置業集團股份有限公司), whose shares are listed on the Shenzhen Stock Exchange (stock code: 000667). From November 2004 to June 2008, Mr. Zhang Yanlin had worked as the director and general manager of Nanjing Xinsu Property Co., Ltd.* (南京新蘇置業有限公司), the director of the office of the board of directors at Wintime Investment Holding Co., Ltd.* (永泰投資控股有限公司), and the director, deputy general manager and representative chairman of Xuzhou Wintime Real Estate Development Co., Ltd.* (徐州永泰房地產開發有限公司). Since November 2015, he has been serving as the assistant of the chairman and general manager of the corporate governance department of Wintime Holding. Since 10 August 2016, he has been serving as the chairman and general manager of Shenzhen Wintime Finance Lease Co., Ltd.* (深圳市永泰融資租賃有限公司). Since 17 September 2016, he has been serving as a director and general manager of Wintime Technology Investment Co., Ltd.* (永泰科技投資有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang has entered into a service agreement with the Company under which he acts as a non-executive director of the Company for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such service agreement, Mr. Zhang will receive from the Company a director's fee of HK$200,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and his duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Mr. Zhang for his directorship in the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. XU Dunkai, aged 65, is currently the president of the Alumni Association of Zhongnan University of Economics and Law. He was previously the vice chairman of Higher Financial & Economic Education Branch of China Higher Education Association, and the legal representative of the Education Development Foundation of Zhongnan University of Economics and Law. He graduated from Hubei Institute of Finance and Economics in January 1982 with a bachelor's degree in philosophy. He completed the main courses of master of science in economics in Wuhan University from September 1984 to July 1985. He is the Author of "The History of Enterprise Management Thought in the Period of the Republic of China" (《民國時期企業經營管理思想史》). He organized the compilation of the dictionary of "Financial Dictionary (Second Edition)" (《財經大辭典》(第二版)). He has also led a national social science foundation research project.

Mr. Xu was appointed by way of a letter of appointment for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such letter of appointment, Mr. Xu will receive from the Company a director's fee of HK$150,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and his duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Mr. Xu for his directorship in the Company.

Ms. FENG Xin, aged 35, has more than 10 years of experience in the field of financial services, investment and financial management, including experience in investment banking, private equity investment, and financial auditing. She holds a bachelor's degree in accounting from Xiamen University and Master of Business Administration from Ross School of Business at the University of Michigan. Ms. Feng Xin had previously worked as the senior auditor of Deloitte Huayong Certified Public Accountants (Shenzhen branch) and was the vice president in the investment banking department of China International Capital Corporation (中國國際金融股份有限公司). She had also held the role as the general manager of Guo Kai Jin Tai Capital Co. Ltd.* (國開金泰資本投資有限責任公司). She is currently a managing director of iSoftStone Holdings Limited* (軟通控股有限公司).

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Feng was appointed by way of a letter of appointment for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such letter of appointment, Ms. Feng will receive from the Company a director's fee of HK$150,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and her duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Ms. Feng for her directorship in the Company.

Mr. HU Quansen, aged 49, is a senior accountant and a PRC certified public accountant. He received a bachelor's degree in economics from Zhongnan University of Economics in July 1990 and a master's degree in finance from Zhongnan University of Economics and Law in December 2005. He served as the manager of audit division of Wuhan International Trust & Investment Co., Ltd.* (武漢國際信托投資公司) between May 2004 and October 2010. He also served as the general manager of the audit division of Founder Bea Trust Co., Ltd.* (方正東亞信托有限責任公司) from October 2010 to March 2015, and has been serving as the general manager of the trust asset management division of the same company since March 2015.

Mr. Hu was appointed by way of a letter of appointment for a period of three years (subject to retirement by rotation and re-election at the general meeting of the Company in accordance with the memorandum and articles of association of the Company), unless and until terminated by either party giving to the other not less than three months' notice in writing. Pursuant to such letter of appointment, Mr. Hu will receive from the Company a director's fee of HK$150,000 per annum. Such director's fee is determined with reference to the prevailing market conditions and his duties and responsibilities with the Company, and will be subject to review by the remuneration committee of the Company from time to time. As at the date of this announcement, there is no other benefit provided to Mr. Hu for his directorship in the Company.

SENIOR MANAGEMENT

Mr. LEE Yin Sing (李彥昇), aged 36, is the chief financial officer and company secretary of the Company (the "Company Secretary"). Mr. Lee is responsible for overseeing the Group's financial planning and management. Mr. Lee has over 11 years of experience in finance control and accounting through his prior employments. He acquired auditing experience through his prior employment with an audit firm of international repute from 2002 to 2007. Prior to joining the Group as its chief financial officer in August 2010, he worked as the financial manager of Proview International Holdings Limited, a company listed on the Stock Exchange (stock code: 334), in 2009 during which he acquired experience in finance control, accounting and company secretarial matters. Mr. Lee graduated from the City University of Hong Kong in 2002 with a bachelor's degree in accounting. He has been a member of the Hong Kong Institute of Certified Public Accountants since 2008.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. WANG Shao Hua (王韶華), aged 49, is an executive Director. Mr. Wang has over 23 years of experience in the knitting industry. He has been the general manager of Zhucheng Eternal Knitting Company Limited since May 2004 and was also appointed as its director in December 2009.

Mr. Wang graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained his junior college degree in textile (針織專業大學專科) in July 1987. He completed the part-time course in Shandong Provincial Party School of the Communist Party of China (中共山東省委黨校) during September 1993 to June 1996 in economic management and obtained his certificate.

He has also been a director of Zhucheng Yumin Knitting Company Limited since November 2004 and a director of Shandong Grand Concord Garment Company Limited since its establishment.

Mr. LIU Xin De (劉心德), aged 50, is a director of Zhucheng Eternal Knitting Company Limited and Zhucheng Yumin Knitting Company Limited. Mr. Liu is responsible for product management and equipment administration of Zhucheng Yumin Knitting Company Limited. He joined Zhucheng Eternal Knitting Company Limited in March 2001 as merchandiser and was promoted as an office manager in June 2003. Mr. Liu obtained his bachelor's degree in national economic management from Shandong University (山東大學) in July 1989.

Ms. JI Tai Mei (季太梅), aged 47, is the deputy general manager in charge of product management of Zhucheng Eternal Knitting Company Limited. Prior to her appointment as the deputy general manager in April 2010, she served as the head of product planning department and concurrently as the assistant of general manager of Zhucheng Eternal Knitting Company Limited from June 2004 until April 2010. Prior to joining the Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from September 1989 to May 2004 and assumed the position of manager of the garment workshop from July 1999. Ms. Ji obtained her junior college degree in accounting from Shandong TV University (山東廣播電視大學) in July 1994.

Ms. ZHOU Li (周麗), aged 44, is the deputy general manager of Zhucheng Eternal Knitting Company Limited. Prior to her appointment as the deputy general manager in April 2010, she served as the sales manager of Zhucheng Eternal Knitting Company Limited since December 2005 and was also appointed as assistant of general manager of Zhucheng Eternal Knitting Company Limited on 15 August 2007. Before her engagement with the Group, she worked for Shandong Lanfeng Knitting Group Co. Ltd. (山東蘭鳳針織集團) from August 1992 to October 2005 and was the deputy general manager of import and export department before she left the same. Ms. Zhou graduated from Shandong Textile Industry School (山東省紡織工業學校) and obtained her degree of secondary vocational school diploma in textile on July 1992. She also obtained junior college degree in economic management (經濟管理大學專科) after completing the 3-year distance learning course from Shandong Cadres Correspondence College (山東省幹部函授大學) in June 1996.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Grand Concord International Holdings Limited (the "Company" together with its subsidiaries as the "Group") is pleased to present the first Environmental, Social and Governance Report 2016 ("Report") to provide an overview of our commitment in achieving environmental, social and governance goals through our sustainability pillars and provides information on the policies and practices implemented. This Report is prepared by the Group with the professional assistance by APAC Compliance Consultancy and Internal Control Services Limited.

PREPARATION BASIS AND SCOPE

This Report is prepared in accordance with Appendix 27 to the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the "HKEx") (the "Listing Rules") – "Environmental, Social and Governance Reporting Guide".

This Report summarizes the performance of Grand Concord International Holdings Limited in respect of corporate social responsibility in 2016, covering the business in manufacturing of innerwear products and knitted fabrics owned by the Group. The Report includes all the operation performance of the subsidiaries within the Group in Hong Kong, Mainland China and Myanmar.

In view of the first time of publish of the Report, only key performance indicators ("KPIs") in 2016 for Mainland China and Myanmar, which are considered as material by the Group, are disclosed. The Group will continue to optimize and improve the disclosure of KPIs.

This Report shall be published both in Chinese and English. Should there be any discrepancy between the Chinese and the English versions, the English version shall prevail.

REPORTING PERIOD

This Report demonstrates our sustainability initiatives during the reporting period from 1 January 2016 to 31 December 2016.

CONTACT INFORMATION

The Group welcomes your feedback on this Report for our sustainability initiatives. Please contact us by email to info@grandconcord.com.

STAKEHOLDER ENGAGEMENT

Expectations and opinions from our stakeholders are important and valuable. The Group engages with its stakeholders, including employees, consumers, distributors, investors, supplies and the community, through utilizing different channels as listed the table below. Through the stakeholder engagement, the Group understands the expectations and concerns from stakeholders and the feedbacks obtained through these channels allows the Group to further enhance the strategy of sustainable development.

Stakeholders	Expectations	Engagement channels
Government	– To comply with the laws – Proper tax payment – Promote regional economic development and employment	– On-site inspections and checks – Research and discussion through work conferences, work reports preparation and submission for approval – Annual reports – Website
Shareholders and Investors	– Low risk – Return on the investment – Information disclosure and transparency – Protection of interests and fair treatment of shareholders	– Annual general meeting and other shareholder meetings – Annual report, announcements – Newsletter – Meeting with investors and analysts
Employees	– Safeguard the rights and interests of employees – Working environment – Career development opportunities – Self-actualization – Health and safety	– Conference – Training, seminars, briefing sessions – Cultural and sport activities – Newsletters – Intranet and emails
Customers	– Safe and high-quality products – Stable relationship – Information transparency – Integrity – Business ethics	– Website, brochures, annual reports – Email and customer service hotline – Feedback forms – Regular meeting
Suppliers	– Long-term partnership – Honest cooperation – Fair, open – Information resources sharing – Risk reduction	– Business meetings, supplier conferences, phone calls, interviews – Regular meeting – Review and assessment – Tendering process

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations	Engagement channels
Peer/Industry associations	– Experience sharing – Corporations – Fair competition	– Industry conference – Site visit
Market regulator	– Compliance with the law and regulations – Disclosure information	– Consulting – Information disclosure – Reports

Key engagement activities with stakeholders in 2016

1. Government

The Group has accepted the government's supervision, inspection and evaluation (e.g. 11 on-site inspections throughout the year), and actively undertook social responsibilities. Government officers were invited to be the host for textile and clothing conference.

2. Shareholders and investors

The Group has issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing 12 announcements/circulars, 12 periodic reports and 2 results briefing in 2016. The Group has disclosed company contact details on website and in reports to ensure all communication channels are available and effective. Besides, the Group has carried out different forms of investor activities with an aim to improve investors' recognition.

3. Customers

The Group has attended different marketing events to promote products of the Group (e.g. exhibitions in Shenzhen and Shanghai and site visits in China and Japan).

4. Employees

The Group aims to provide a healthy and safe working environment and develops a fair mechanism for promotion. The Group has established Labor unions at all levels to provide communication platforms for employees.

5. Suppliers

The Group has invited tenders publicly to select the best suppliers and contractors, performed contracts according to agreements, enhanced daily communication, and established long-term cooperation with quality suppliers and contractors.

6. ***Peers/industry association***

   Stuck to fair play, cooperated with peers to realize win-win, shared experiences and attended about a dozen of seminars of the industry so as to promote sustainable development of the industry.

7. ***Market regulator***

   The Group has complied with regulatory requirements in a strict manner, disclosed and reported true information in a timely and accurate manner according to law.

ENVIRONMENTAL ASPECTS

The Group recognizes the importance of green culture and the increasing public awareness on environmental issues. In the corporate decision making process, the Group gives due consideration to environmental issues and actively minimizes the impact on the environment.

Except fulfilling the statutory environmental requirements regulating the production facilities of the Group, the Group also has implemented a number of environment-friendly measures in the operations and workplaces including but not limited to production plants, warehouses and office areas in order to reduce emissions, uses of resources and mitigate other possible impacts on the environment.

The Group is equipped with technically advanced machinery for production. In particular, the weaving machines, dyeing machines, pre-shrinking machines, stentering machines and flat screen and rotary screen printing machines were procured from machinery manufacturers in Japan, Germany, Italy, Hong Kong and Taiwan. The Group has purchased eight sets of high-temperature airflow dyeing machines, which enable the plants to reduce up to two-third of water consumption in the dyeing process. The Group maintains its own sewage treatment facilities and closely monitors the level of hazardous chemicals in our sewage so as to comply with relevant environmental protection regulations.

The Group also actively engages stakeholders to contribute to environmental protection. It favors consultants, contractors and suppliers who follow environmentally-friendly practices in providing their designs, services and products, and promotes environmental awareness amongst customers, business partners, employees and shareholders.

To strengthen the Group's attention to environmental protection measures, the internal audit team was responsible for identifying measures related to environmental, social and governance matters. They will broaden the scope of the Group's green agenda and identify energy improvement opportunities and newly developed technology in order to uphold sustainable development, environmental friendly and care attitude in the workplace.

With the growing public concern in environmental protection, the Group believes its attention to the environmental impact in the production process would provide a positive image as a responsible corporate and lead the Group to more sustainable growth in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2016, it is not aware of any material non-compliance with relevant environmental laws and regulations that have a significant impact on the Group in 2016.

EMISSIONS

Air Pollutant Emissions

According to the Group's policy – "Exhaust Gas Emission Management", it aims to strengthen the management and monitor of air pollutant emission in order to ensure those emissions are in strict compliance with "Integrated Emission Standard Of Air Pollutants (GB16297-1996)" and "Emission Standard Of Air Pollutants For Boilers (Shandong Province) (DB37/2374-2013)".

The air pollutants emission from gaseous fuel consumption and vehicles during 2016 are as follows:

Air Pollutant Emission

	Mainland China (kg)	Myanmar (kg)
Nitrogen oxides	7,385.31	504.47
Sulphur dioxide	248,848.39	0.55
Particulate matter	1,128.60	40.87
Carbon monoxide	938.90	373.66
Hydrocarbon	87.74	124.86

The Group has adopted the following measures in order to reduce the air pollutant emission:

– Dust removal and desulphurization devices must be installed in the boilers.

– Regular examination and maintenance are conducted to ensure the conditions of the devices.

– Automated monitoring systems have been installed in the thermal power plant to ensure that the flue gas emitted meets emission standards.

– Filters are installed to trap and collect unwanted cotton dust. The temperature and humidity are strictly controlled for dust suppression.

Greenhouse Gas ("GHG") Emission

The Group has recognized the impact of greenhouse gas to the climate change. Energy consumption is a major source of greenhouse gas emission. Therefore, the Group has adopted internal policies with aim to reduce the energy consumption, as stated in the session of "Energy Consumption". In 2016, the greenhouse gas emission is summarized as follows:

Greenhouse Gas Emission

	Mainland China (kg)	Myanmar (kg)
Scope 1 Direct	23,203,777.42	6,151.19
Scope 2 Indirect	13,994,838.28	41,519.56
Total	37,198,615.70	47,670.75
Emission Intensity (kg/number of machinery)	11,805.34	114.04

Note:

The calculation of the greenhouse gas is based on the "Corporate Accounting and Reporting Standard" from greenhouse gas protocol.

Scope 1: Direct emission from sources that are owned or controlled by the Group
Scope 2: Indirect emissions from the generation of purchased electricity consumed by the Group
Scope 3 is not disclosed as it is an optional disclosure and the corresponding emission is not controlled by the Group

Hazardous and Non-Hazardous Wastes

Wastes generated from the production requires proper treatment in order to reduce the impact to the environment. According to the internal policy – "Solid Wastes Treatment Management", the Group is in strictly compliance with "Standard Of Pollution Control On The Storage And Disposal Site For General Industrial Solid Wastes (GB 18599-2001)", "Standard For Pollution Control On Hazardous Waste Storage (GB 18597-2001)" and "Administrative Measures for Hazardous Waste Transfer Manifests and Measures for the Administration of Permits to Handle Dangerous Wastes".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Boiler slag, sludge and domestic wastes are the major solid wastes of the Group. Slag and sludge are recycled and treated property. Specified personnel are responsible for the clearance and selling of boiler slag. Hazardous wastes are separately stored and handled with ledger for record. In 2016, the wastes generated is summarized as follows:

	Mainland China	Myanmar
Total hazardous wastes	338,169.00 m^3 (Wastewater)	0 tonnes
Total non-hazardous wastes	254.00 tonnes	7.10 tonnes

Qualified recycling companies are engaged to perform waste disposal and treatment so as to minimize the impact on the nature.

Wastewater

Wastewater is a major emission during the production process. According to the Wastewater Management Policy, the Group strives to strengthen the management of sewage treatment facilities to ensure the wastewater can meet the requirement of "Wastewater Quality Standards For Discharge To Municipal Sewers (CJ343-2010)" and the "Discharge Standards Of Water Pollutants For Dyeing And Finishing Of Textile Industry (GB4287-2012)". Wastewater is collected in treatment tanks where a series of biological contact oxidation processes take place. Testing and monitoring are conducted at regular intervals to ensure the quality of the wastewater complies with national and regional standards.

Noise

Noise from operating machineries also has a significant impact to the surrounding environment. Sound insulation devices, sound arresters and mufflers are installed and trees are planted in the factory zone to reduce noise pollution by the Group. Operation of machineries with high noise levels are prohibited during breaks, noon time and night time, and any extension of operation due to special circumstances must be reported and approved by relevant departments.

USE OF RESOURCES

The Group is primarily engaged in manufacturing of innerwear products and knitted fabrics. There is a great demand for energy and resources, especially electricity and water during the production process. The Group recognizes the importance of resources saving as it benefits both the environment in terms of energy consumption and operating costs reduction. The Group has implemented energy and water conservation practices to reduce the resource consumption according to the policy – "Social Responsibility Management System".

Energy Consumption

The Group aims to strengthen its energy and resource management by implementing the following measures:

- Install thermometers in the premises to monitor the temperature
- Use energy-saving light bulbs, such as compact fluorescent lamps, T5 fluorescent lamps, LED, etc.
- Bicycle storage, shower facilities and preferred parking for vehicles that either adopt cleaner fuels or for sharing usage are provided to encourage more environmentally-friendly forms of transportation
- Turn off the lights after leaving the premise for more than an hour
- Attach notice beside the lighting button to remind staff the importance of saving energy
- Energy efficient motors have been installed in the plant
- Staff are encouraged to reduce printing and to make use of duplex printing for internal documents. Recycled papers have also been used as key printing materials.

Energy consumption by the Group during 2016 is set out below:

Resource	**Mainland China (kWh)**	**Myanmar (kWh)**
Diesel	439,538.06	7,024.07
Petrol	394,076.11	16,503.43
LPG	919,397.76	–
Coal	67,457,338.89	–
Steam	32.77	–
Purchased electricity	12,318,387.00	212,000.00
Purchased gas	184,791.11	–
Total	81,713,561.69	235,527.50
Energy Intensity (kWh/number of machinery)	25,932.58	563.46

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water Consumption

Water is also another essential resource for the daily operation of the Group, especially for the dyeing and finishing process. With the support from Water Resource Department of Zhucheng City, the Group has accomplished the water conservation target by implementation of the following measures:

– The Group has incorporated the concept of water conservation in daily operation. Water conservation is one of the indicators in the performance appraisal of staff.

– Production plants are equipped with technically advanced dyeing machines to reduce the water-liquor ratio from 1:8 to 1:4 in which greatly reduced two-third of water consumption. Besides, clean water is separated from sewage in the wastewater for recycling.

– In 2016, a world leading greywater recycling technology facility is installed in order to reuse the wastewater.

Apart from the production plants, water-saving fixtures are installed for all sinks, lavatories and showers so that rainwater can be captured to irrigate landscaped areas.

In 2016, the consumption of water in Mainland China and Myanmar is set out below:

	Mainland China	Myanmar
Total Water Consumption (m^3)	338,169.00	112.00
Water Intensity (m^3/machinery)	28,180.75	0.27

Packaging Materials

The major packaging materials used are paper and plastic. The consumption of such materials in 2016 is summarized as below:

Packaging material	Mainland China	Myanmar
Plastic	5,376,889.00 pics	–
Paper Tube	156,113.68 m	–
Paper Box	474,634.00 pics	21.90 tonnes

The Environment and Natural Resources

The Group has adopted a comprehensive procedure – "Contingency Plan For Environmental Pollution Accident" – in order to effectively respond to emergencies within environment and enhance the rescue standard and reaction time. Therefore, possible pollution can be controlled and the impact to the environment and natural resources can be mitigated. In order to identify the potential hazards to the environment, regular environmental impact assessments are conducted.

SOCIAL IMPACT

Employment and Labour Practices

Employment

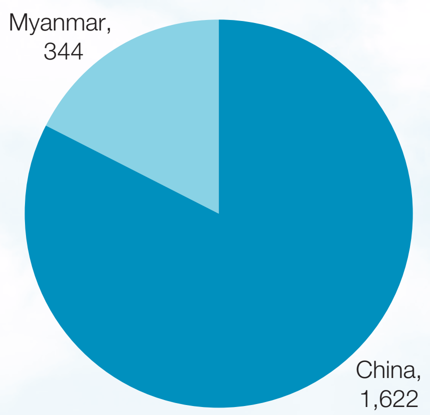
The Group believes that people are important assets of the Company, which is the foundation for success and development of the Company. The Group's human resources policies set out the standard of staff recruitment, promotion guidelines, remuneration scale, work hours, rest breaks, holidays, termination of employment, compensation matters and prevention of child labor or forced labor. Labor contracts or employment agreements are entered into between the Group and employees, which clearly state relevant details in order to safeguard mutual interests. Those human resources policies and procedures are in place with the aim to provide employees with good working conditions and a safe and healthy workplace. The adoption of those human resources policies and procedures also ensures the Group's compliance with the relevant labor laws and regulations where it operates, including "Employment Contract Law of the People's Republic of China" and "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases". The Group has established a welfare system suitable for enterprise development and employees' growth. It provides various benefits to employees such as subsidies on holidays and festivals, home leaves, meals, transportation and residential allowance. The budget for such benefits is planned and reviewed annually. The Group advocates harmonious and work-life balance culture through a diverse choice of activities such as annual dinners, knowledge competitions, leisure trips, outstanding employee awards, etc. Such activities can enable employees to relax and enhance the communications among employees.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

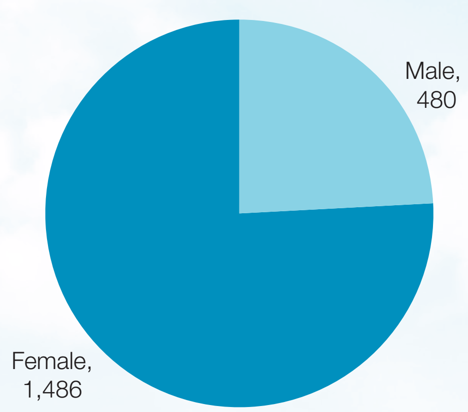
In 2016, the Group had not violated any relevant national labor laws and regulations or received any complaints related to employment and labor practices.

Below is a detailed breakdown of our employees by region, gender, age group and employment type:

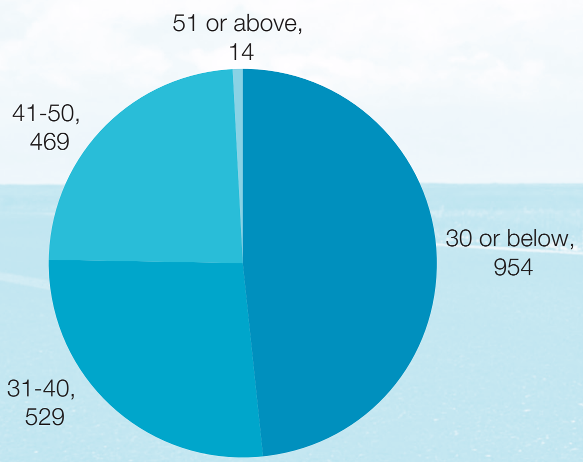
By location



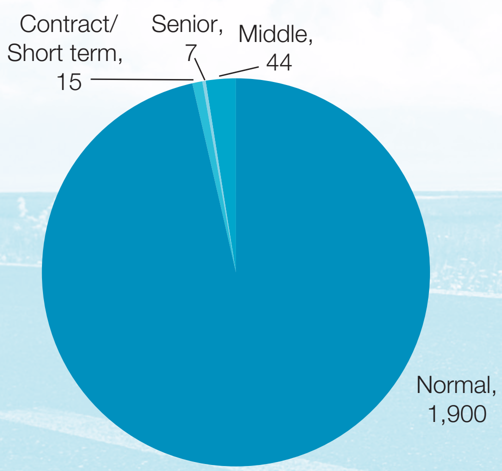
By gender



By age group



By employment category



Below is a detailed breakdown of our employees turnover rate by region, gender, age group:

Employee turnover rate	
Turnover rate by gender	
Male	17%
Female	16%
Turnover rate by age group	
30 or below	15%
31-40	18%
41-50	18%
51 or above	0%
Turnover rate by region	
China	20%
Myanmar	1%

Health and Safety

The Group is required to comply with “Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases” and “Regulation Governing the Corporate Labor, Safety and Hygiene Educational Management” which were formulated pursuant to PRC Labor Law based on the internal policy “Protection of the Rights of Employee”. Thus, a production safety committee has been established for the administration of production safety while related internal policy “Protection of the Rights of Employee” was implemented.

The Group provides a pre-employment health assessment and safety education such as fire safety training (which includes evacuation procedures, use of firefighting equipment, etc.) to every new employee. Besides, the Group has established safety standards in connection with matters such as the usage of safety helmets, the operation of vehicles and the mechanism of reporting the industrial accidents with aim to enhance the occupational safety and to minimize the possibility of work-related accidents and injuries, as well as occupational illness.

The Group regularly receives safety inspection from customers. The scope of such safety inspection depends on the request of customers, which usually includes safety production procedures, the safety equipment maintained by the Group, other welfare of our employees and fire control. The Group has to pass the safety inspection by customers in order to cooperate with these customers. Besides, regular occupational hazards assessments are conducted to identify hazards in the production plants and ensure the safety measures are implemented appropriately.

In 2016, the Group was not subject to any punishment by the government and was not involved in any lawsuit and there was no fatality case. However, it is with deep regret that there were 17 reported injuries. There were no lost days due to work injuries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

The Group aims to offer diversified on-the-job training based on the needs of respective positions and the talents and interests of employees according to the policy of “Human resource Training Plan”. The Group provides a wide variety of trainings to cater to the needs of employees in different departments with an aim to enhance their expertise, skills and management competence.

Training covers content that relate to staff orientation, quality assurance, occupation safety, manufacturing processes and accounting practices, etc. In order to evaluate the results of each training program for further improvement, a training record is maintained for future review. The following are part of the training programs offered to employee in 2016.

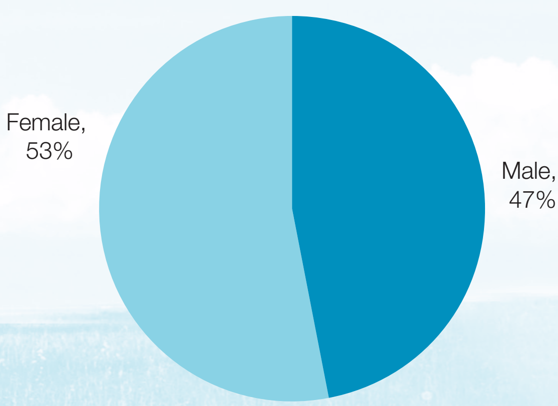
Date	Target Department	Topic
January	Warehouse	Standard for finished knitted fabric
	Quality Inspection Department	Operation procedure for quality check
February	Sales Department	Knowledge for E-commerce
	Clothing Department (Production line leader)	On-site management
March	Warehouse management staff	The protection and maintenance of the fabric and finished products
	New employees	Orientation, knowledge related to firefighting, and emergency evacuation, quality control policy
	Quality Inspection Department	Standard for cropping, knitting and packaging
April	Sales Department	Knowledge on the products (methods of dyeing, weaving)
	Warehouse (Cloth examiner)	Procedures on examination of gray cloth
	Cutting	Cutting skills and procedures
May	Clothing	Quality control and skills
	Cutting	Cutting operation procedures
June	Sales Department	Method to examine the properties of material and color fastness
	Office (Human resources)	Training on labor laws and regulations
	Quality Inspection	Quality control and standard for the clothing
July	Quality Inspection (Packaging personnel)	Packaging requirements
August	Sales Department	Theory and procedure of printing
	Quality Inspection (All staff)	5S management and job skills

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

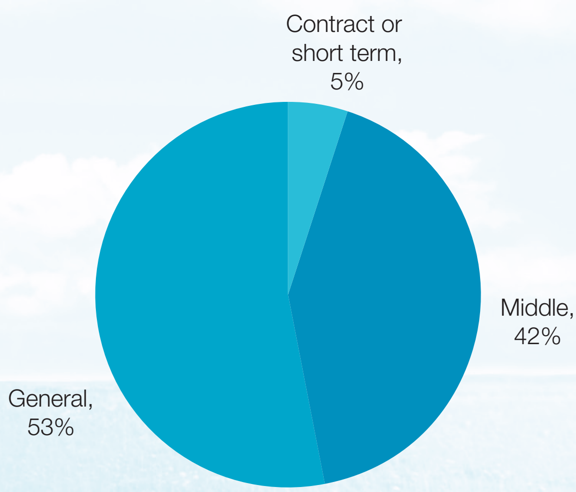
Date	Target Department	Topic
September	Quality Inspection (Management)	Job knowledge and skills
October	Sales Department	Understanding of the production procedures
	Office (Production line staff)	Fire safety Training: Firefighting equipment and fire drill
December	Sales Department	Business operation procedures
	Office (Human resources)	Introduction to auditing system and attendance system

Below is a detailed breakdown of the percentage of employees trained by gender and employee type for 2016:

By gender



By employment category



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The average training hours for employees by gender and employment type are as follows:

	Average training hours for employee (Hours per employee)
By Gender	
Male	1.74
Female	0.53
By Employment	
Senior	0
Middle	6.14
General	0.45
Contract or short term	23.33

Labour Standards

By the adoption of policy – "Labor Resource Management Regulation" – the Group has set the minimum age requirement for recruitment, which complies with the relevant section in "Labor Law of the People's Republic of China". The Group also follows the policy to set up a procedure to receive employees' feedback on all issues including child labor and forced labor. If any case of non-compliance is reported, an investigation will be carried out to settle the case and prevent the repetition. Also, the Group will consult with the child's guardians on avenues for his or her return to school.

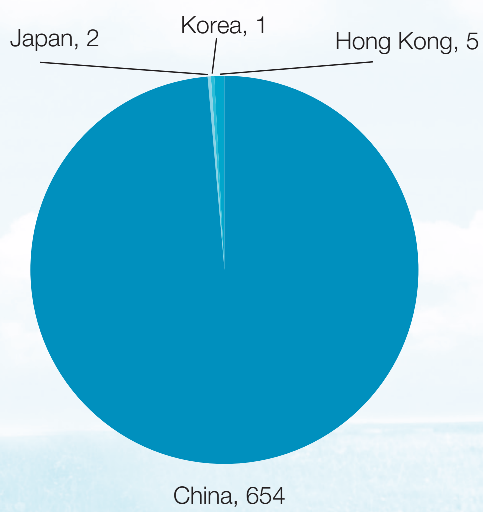
In 2016, the Group had not violated any relevant national labor laws and regulations including child and forced labor laws and regulations.

OPERATING PRACTICES

Supply Chain Management

According to the Group's policy of "Distributors/Subcontractors Social Responsibility Control Procedure", the Group carefully selects suppliers based on their performance in social responsibility. Audits and site inspections are conducted annually to ensure suppliers comply with relevant laws and regulations. The Group has maintained long-term strategic and co-operative relationships with leading suppliers with good credit history, solid reputation, high product quality, proven record of environmental compliance and sound commitment to social responsibility. This is commercially beneficial as long-term collaboration would allow the Group to provide reliable and quality products to the customers. The number of suppliers by geographical location is as follows:

Number of suppliers by geographical location



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Product Responsibility

The Group complies with “Trademark Law of the People’s Republic of China”, “Law Of The Peoples Republic Of China On Product Quality” and “Law Of The People’s Republic Of China On The Protection Of Consumer Rights And Interests” by adopting a set of policies to protect the intellectual property and secure the quality of the products. Considering the safety of the products, dyes and chemicals used are approved chemical additives produced by renowned chemical companies in the PRC and abroad. The use of chemical additives which contain banned chemicals in the European Union, the United States and China is strictly prohibited.

In 2016, the Group did not discover any significant risk exposure in relation to health and safety, advertising, labelling and privacy matters relating to products or services. There was no case for recalling products or complaints.

Intellectual Property Protection

The Group relies on a combination of protection such as entering into non-disclosure agreements, implementing internal security systems and policies and employing other methods to protect intellectual property. Employees are required to sign an employment agreement which prohibits the disclosure of any of the Group’s proprietary intellectual property to any third parties.

Quality Control

The Group upholds the belief of “The quality today determines the market tomorrow” and strives to improve its quality management system. Enterprise Resource Planning (ERP) management system has been implemented to make the operation of the supply chain more efficient. Recently, the Group has obtained the Worldwide Responsible Accredited Production (WRAP), Workplace Conditions Assessment (WCA), The Business Social Compliance Initiative (BSCI) and PUMA certifications. Besides, the Group has implemented the Toyota Production System (TPS) in the production process and promotes 8S (Sort, Straighten, Sweep, Sanitary, Sentiment, Safety, Save and Study) management concept in the working environment. At each of the production steps, comprehensive inspections on the quality of the semi-finished and finished fabrics are conducted to ensure compliance with customers’ order specifications. The semi-finished and finished fabrics are required to go through three quality testing points. Preliminary inspection is carried out on greige fabrics before dyeing. Intermediate inspection is performed after the dyeing procedure to ensure the colors and quality of the dyed fabrics are in compliance with customers’ order specifications. During the final inspection, fabrics are put onto a stenter machine for, on one hand, cleaning, wringing and drying and on the other hand, screening knitting patterns and colors of the fabrics, identifying flaws in thickness and for physical touch inspection. The fabrics will then go through physical, chemical and bacteria testing before a quality inspection report is issued by our quality assurance staff. Thereafter, the fabrics will be transported to the warehouse.

Anti-corruption

The Group has adopted a whistleblowing system and procedures for all levels and operations under the Group to raise concerns, in confidence, for possible improprieties in any matter related to the Group such as misconduct and malpractice.

In 2016, the Group had been in strict compliance with the "Criminal Law of the People's Republic of China" and no concluded cases regarding corrupt practices brought against the Group or its employees were noted.

COMMUNITY

Community Investment

The Group has attached great importance to participating in community cultural activities and carried out various forms of cultural exchange activities with the local communities according to the policy of "Social Responsibility Procedure". The Group builds up and maintains harmonious relationships with people who are directly affected or interested in the operations. Measures regarding to community contribution are as follows:

– The candidates from the community where the Group operates enjoy the priority to be recruited, which not only relieves the local employment pressure, increases villagers' income, but also promotes good relationship between villages and enterprises;

– Corporation with education institutions;

– Upholding and promoting the human rights of employees and contractors, suppliers, and the communities in which the Group operates;

– Recognizing and respecting indigenous people's culture, heritage and traditional rights and supporting the identification, recording, management and protection of indigenous cultural heritage;

– Managing the risk of public health threats amongst employees, contractors and local communities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE STOCK EXCHANGE OF HONG KONG LIMITED'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Indicator	Description	Section Reference	Page
A. Environmental			
A1 – Emissions			
A1	General Disclosure	• "Environmental aspects" • "Emissions" • Not aware of any material non-compliance	25-28
KPI A1.1	The types of emissions and respective emissions data.	• "Emissions – air pollutant emission, GHG emission, hazardous and non-hazardous waste, wastewater and noise"	26-28
KPI A1.2	Greenhouse gas emissions in total and, where appropriate, intensity.	• "Emissions – GHG emission"	27
KPI A1.3	Total hazardous waste produced and, where appropriate, intensity.	• "Emissions – hazardous and non-hazardous waste"	28
KPI A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	• "Emissions – hazardous and non-hazardous waste"	28
KPI A1.5	Description of measures to mitigate emissions and results achieved.	• "Environmental aspects" • "Emissions – air pollutant emission, GHG emission, hazardous and non-hazardous waste, wastewater and noise"	25-28
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	• "Emissions – hazardous and non-hazardous waste"	27-28

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Description	Section Reference	Page
A2 – Use of Resources			
A2	General Disclosure	• "Environmental aspects" • "Use of resources – energy consumption, water consumption and packaging materials and other resources"	25-26, 28-31
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	• "Use of resources – energy consumption"	29
KPI A2.2	Water consumption in total and intensity.	• "Use of resources – water consumption"	30
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	• "Use of resources – energy consumption"	29
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	• "Use of resources – water consumption"	30
KPI A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	• "Use of resources – packaging materials"	30
A3 – The Environment and Natural Resources			
A3	General Disclosure	• "Environmental aspects" • "The environment and natural resources"	25-26, 31
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	• "Environmental aspects" • "The environment and natural resources"	25-26, 31
B. Social			
B1 – Employment and Labour Practices			
B1	General Disclosure	• "Employment and labour practices" • "Employment" • Not aware of any material non-compliance	31-33
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	• "Employment"	32
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	• "Employment"	33

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Description	Section Reference	Page
B2 – Health and safety			
B2	General Disclosure	• "Health and safety" • Not aware of any material non-compliance	33
KPI B2.1	Number and rate of work-related fatalities.	• "Health and safety"	33
KPI B2.2	Lost days due to work injury.	• "Health and safety"	33
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	• "Health and safety"	33
B3 – Development and Training			
B3	General Disclosure	• "Development and training"	34-36
KPI B3.1	The percentage of employee trained by gender and employee category.	• "Development and training"	35
KPI B3.2	The average training hours completed per employee by gender and employee category.	• "Development and training"	36
B4 – Labour Standards			
B4	General Disclosure	• "Labour Standards" • Not aware of any material non-compliance	36
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	• "Labour Standards"	36
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	• "Labour Standards"	36
B5 – Supply Chain Management			
B5	General Disclosure	• "Supply chain management"	37
KPI B5.1	Number of suppliers by geographical region.	• "Supply chain management"	37
KPI B5.2	Description of practices relating to engaging supplies, number of supplies where the practices are being implemented, how they are implemented and monitored.	• "Supply chain management"	37

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicator	Description	Section Reference	Page
B6 – Product Responsibility			
B6	General Disclosure	• "Product responsibility" • Not aware of any material non-compliance	38
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	• "Product responsibility"	38
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	• "Product responsibility"	38
KPI B6.3	Description and practices relating to observing and protecting intellectual property rights.	• "Product responsibility" – "Intellectual property protection"	38
KPI B6.4	Description of quality assurance process and recall procedures.	• "Product responsibility" – "Quality Control"	38
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	–	–
B7 – Anti-corruption			
B7	General Disclosure	• "Anti-corruption" • Not aware of any material non-compliance	39
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the case.	• "Anti-corruption" • No such cases	39
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	• "Anti-corruption"	39
B8 – Community Investment			
B8	General Disclosure	• "Community investment"	39
KPI B8.1	Focus areas of contribution.	• "Community investment"	39
KPI B8.2	Resources contributed to the focus area.	–	–

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is pleased to present this report in the Group's annual report for the year ended 31 December 2016.

The Company places a high value on its corporate governance practices and the Board firmly believes that good corporate governance practices can improve accountability and transparency for the benefit of its shareholders. The Board has adopted the code provisions (the "Code Provision(s)") of the Corporate Governance Code (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Board also reviews and monitors the practices of the Company from time to time with an aim to maintaining and improving high standards of corporate governance practices. During the year ended 31 December 2016, the Company has complied with the Code Provisions except for the deviations set out below:

Code Provision A.2.1

Code Provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Before 12 October 2016, the Company did not have any officer with the title of chief executive. The duties of a chief executive are undertaken by Mr. Wong Kin Ling, the chairman of the Board. Although this deviates from the practice under Code Provision A.2.1, which provides that the two positions should be held by two different individuals, as Mr. Wong Kin Ling has considerable and extensive knowledge and experience in the industry and in enterprise operation and management in general, the Board believes that it is in the best interests of the Company and its shareholders as a whole to continue to have Mr. Wong Kin Ling to act as the chairman and to assume the duties of a chief executive. On 12 October 2016, Mr. Wang Bin was appointed the chairman of the Board and Ms. Tian Ying was appointed as the chief executive officer of the Company. As such, the roles of Chairman and chief executive has since been properly separated.

BOARD

Responsibilities

The Board is responsible for leading and controlling the Company and overseeing the Group's businesses, strategic decisions and financial performance as well as its overall corporate governance functions. The management is delegated the authority and responsibility by the Board for the management of the Group under the leadership of the chairman. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee (collectively the "Committees"), which assist the Board in discharging its duties and overseeing particular aspects of the Group's activities.

CORPORATE GOVERNANCE REPORT

The types of decisions made by the Board include, among others, determining the Group's mission and corporate policy, providing its strategic direction and is responsible for the approval of strategic plans, approving the Company's financial statements, interim and annual reports, determining director selection, orientation and evaluation as well as regularly evaluating its own performance and effectiveness.

The day-to-day management, administration and operation of the Company are delegated to the senior management, with division heads responsible for different aspects of the business.

Major corporate matters that are specifically delegated by the Board to the senior management include preparation of interim and annual reports and announcements, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures and compliance with relevant laws, rules and regulations.

Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises three executive Directors, namely Mr. Wang Bin, Ms. Tian Ying and Mr. Lam Tet Foo, one non-executive Director, namely Mr. Zhang Yanlin and three independent non-executive Directors, namely Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen. The biographies of the Directors are set out under the section headed "Biographies of Directors and Senior Management" of this annual report.

The independent non-executive Directors bring a wide range of business and financial expertise, experience and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all non-executive Directors make various contributions to the effective direction of the Company.

The Board is also characterised by significant diversity in areas of gender, professional backgrounds and skills. The Board formalised its existing diversity through the introduction of a board diversity policy, which is expected to bring further diversity in respect of business and financial experience to the Board for contributing to the effective direction of the Board.

Save as disclosed in the section headed "Biographies of Directors and Senior Management" on pages 17 to 21 of this report, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure that strong independence exists across the Board.

During the year ended 31 December 2016 and up to the date of this report, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

CORPORATE GOVERNANCE REPORT

The Company has received annual confirmations of independence from the three independent non-executive Directors. The Board has assessed their independence and is satisfied that all the independent non-executive Directors are in full compliance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

The non-executive Director, namely Mr. Zhang Yanlin entered a service contract with the Company for an initial term of three year commencing from 12 October 2016, which shall be renewed and extended automatically by three year on the expiry of such initial term or at any time thereafter. The independent non-executive Directors, namely Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen, entered a service contract with the Company for an initial term of three years commencing from 12 October 2016. The non-executive Directors and the independent non-executive Directors are also subject to retirement from office by rotation and is eligible for re-election in accordance with the provisions of the Company's articles of association. At every annual general meeting, one-third of the Directors for the time being, or if their number is not three or a multiple of three, then the number nearest to but not less than one-third shall retire from office. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the Corporate Governance Code.

Training for Directors

Every newly appointed Director shall receive an information package from the Company on the first occasion of his appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by the Director. In addition, the package includes materials on the operations and business of the Group. The Company will subsequently arrange for a briefing as is necessary to ensure that the newly appointed Directors have a proper understanding of the business and operations of the Group and that they are aware of their responsibilities under the relevant laws, rules and regulations.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, Directors are encouraged to enroll in and attend a wide range of professional development courses and seminars relating to the Listing Rules and corporate governance practices organised by professional bodies so that they can continuously update and further improve their relevant knowledge and skills. From time to time, Directors are provided with written training materials to develop and refresh their professional skills.

According to the records maintained by the Company, all the Directors received trainings in the form of reading written materials and/or attending seminars with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the Code Provisions on continuous professional development during the year ended 31 December 2016.

Board meetings

Board meetings are held regularly, at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance record of each member of the Board is set out in the section headed “Board Committees”.

All Directors have access to the advice and services of the company secretary of the Company (the “Company Secretary”). All Directors have access to the senior management for enquiries and information when required. The Directors, upon reasonable requests, may also seek independent professional advice at the Company’s expense.

Practices and conduct of meetings

Draft agenda of all Board meetings are made available to the Directors in advance.

Where practicable, notices of regular Board meetings and Committee meetings are served on all Directors at least 14 days before the meetings. Board papers are sent to all Directors at least three days before each Board meeting or Committee meeting to keep the Directors apprised of the latest developments and the financial position of the Company and to enable them to make informed decisions.

The Company Secretary is responsible for keeping minutes of all Board meetings and Committee meetings. Draft minutes are normally circulated to the Directors for comments within a reasonable time after each meeting and the final version is open for Directors’ inspection.

According to current Board practice, any material transaction involving conflict of interests of a substantial shareholder or a Director will be considered and dealt with by the Board at a duly convened Board meeting. The Company’s articles of association also contain a provision requiring the Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates (as defined under the Listing Rules) have a material interest.

Directors and officers liability insurance

Liability insurance for Directors and senior management of the Company was arranged by the Company with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

CORPORATE GOVERNANCE REPORT

Corporate governance functions

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2016 included developing and reviewing the Company's policies on corporate governance and making recommendations.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2016.

BOARD COMMITTEES

The Board established the Audit Committee and Remuneration Committee on 19 August 2011 and the Nomination Committee on 27 March 2012 with clearly-defined written terms of reference. The main roles and responsibilities of the Committees, including all authorities delegated to them by the Board, are set out in the respective terms of reference or amended and restated terms of reference, where applicable. The independent views and recommendations of the Committees ensure proper control of the Group and the continual achievement of high corporate governance standards expected of a listed company. The chairman of each Committee reports the outcome of the Committee's meetings to the Board for further discussions and approvals.

The majority of the members of each Committee are independent non-executive Directors. The Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice at the Company's expenses.

CORPORATE GOVERNANCE REPORT

The individual attendance records of each Director at the meetings of the Board, Audit Committee, Remuneration Committee, Nomination Committee and general meeting during the year ended 31 December 2016 are set out below:

	Number of meetings attended/held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Wang Bin (appointed on 12 October 2016)	1/1	–	–	–	–
Ms. Tian Ying (appointed on 12 October 2016)	1/1	–	–	–	–
Mr. Lam Tet Foo (appointed on 12 October 2016)	1/1	–	–	–	–
Mr. Wong Kin Ling (resigned on 12 October 2016)	7/7	–	2/2	2/2	1/1
Madam Hung Kin (resigned on 12 October 2016)	7/7	–	–	–	–/1
Mr. Wang Shao Hua (resigned on 12 October 2016)	7/7	–	–	–	–/1
Mr. Feng Yongming (retired on 23 May 2016)	1/3	–	–	–	–/1
Non-executive Directors					
Mr. Zhang Yanlin (appointed on 12 October 2016)	1/1	–	–	–	–
Mr. Wei Jin Long (resigned on 12 October 2016)	7/7	–	–	–	–/1
Independent non-executive Directors					
Mr. Xu Dun Kai (appointed on 12 October 2016)	1/1	–	–	–	–
Ms. Feng Xin (appointed on 12 October 2016)	1/1	–	–	–	–
Mr. Hu Quansen (appointed on 12 October 2016)	1/1	–	–	–	–
Mr. Wang Jin Tang (resigned on 12 October 2016)	7/7	2/2	2/2	–	1/1
Ms. Tay Sheve Li (resigned on 12 October 2016)	7/7	2/2	2/2	2/2	1/1
Dr. Chan Ah Pun (resigned on 12 October 2016)	7/7	2/2	2/2	2/2	1/1

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen (Before 12 October 2016, three independent non-executive Directors, namely Ms. Tay Sheve Li, Mr. Wang Jin Tang and Dr. Chan Ah Pun). The Audit Committee is chaired by Mr. Hu Quansen, who possesses the appropriate professional qualifications and extensive experience in, and knowledge of, finance and accounting as required under Rule 3.10 of the Listing Rules. All Audit Committee members hold the relevant industry and financial experience necessary to advise the Board on strategies and other related matters. None of the Audit Committee members is a former partner of the Company's existing external auditors.

CORPORATE GOVERNANCE REPORT

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of those auditors; monitoring the integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

The Group's audited financial statements and annual report for 2016 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements and report complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

The Audit Committee has not taken any different view from the Board regarding the selection, appointment, resignation or dismissal of the external auditors.

At the committee meeting held on 30 March 2017, the Audit Committee concluded that it was satisfied with its review of the audit fee, process and effectiveness, independence and objectivity of SHINEWING (HK) CPA Limited. The Audit Committee has therefore made the recommendation to the Board that SHINEWING (HK) CPA Limited be re-appointed as the Group's external auditors at the forthcoming annual general meeting.

The Audit Committee met two times during the year ended 31 December 2016, in which the Audit Committee members reviewed the Company's internal controls and risk management process, financial reporting and compliance procedures and financial results and reports and assessed the external auditors for re-appointment. The Audit Committee meeting was attended by the Audit Committee members, the chief financial officer and the external auditors. The attendance record of each member of the Audit Committee is set out in the section headed "Board Committees".

Remuneration Committee

The Remuneration Committee comprises two independent non-executive Directors, namely Mr. Xu Dunkai and Mr. Hu Quansen, and one executive Director, Ms. Tian Ying (Before 12 October 2016, three independent non-executive Directors, namely Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr. Chan Ah Pun and one executive Director, Mr. Wong Kin Ling). The Remuneration Committee is chaired by Mr. Xu Dunkai. The Remuneration Committee is responsible for, among other functions, making recommendations to the Board on the policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; determining the specific remuneration packages of all the executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of the non-executive Directors; and reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee met two time during the year ended 31 December 2016, in which the Remuneration Committee members reviewed the existing remuneration policy and structure of the Company and the remuneration packages and discretionary bonus of the Directors and senior management for 2016 and made recommendations to the Board to approve the proposals on the fees of the independent non-executive Directors. The attendance record of each member of the Remuneration Committee is set out in the section headed "Board Committees".

For the year ended 31 December 2016, the remuneration of the senior management (excluding Directors) is listed as below by band:

Band of remuneration	No. of persons
Below RMB500,000	3
RMB500,001 to RMB1,000,000	2

Further details of the remuneration of Directors and five highest paid employees have been set out in notes 13 and 14 to the consolidated financial statements.

Nomination Committee

The Nomination Committee comprises two independent non-executive Directors, namely, Ms. Feng Xin and Mr. Hu Quansen, and one executive Director, Mr. Wang Bin (Before 12 October 2016, two independent non-executive Directors, namely Dr. Chan Ah Pun, Ms. Tay Sheve Li and one executive Director, Mr. Wong Kin Ling). The Nomination Committee is chaired by Mr. Wang Bin.

The Nomination Committee is responsible for formulating the nomination policy for consideration of the Board and implementing the nomination policy laid down by the Board; reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying and nominating individuals suitable qualified to become the members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; and conforming to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the memorandum and articles of association of the Company or imposed by legislation.

During the year ended 31 December 2016, two meeting was held by the Nomination Committee. The major work performed by the Nomination Committee during the year included reviewing the Nomination Committee's terms of reference, proposing appointment of Directors reviewing the policy relating to term of appointment of the independent non-executive Directors, and recommending to the Board for approval of the continuation of the independent non-executive Directors' term of appointment. The attendance record of each member of the Nomination Committee is set out in the section headed "Board Committees".

Company Secretary

The Company Secretary, namely Mr. Lee Yin Sing, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary reports to the chairman of the Board and is responsible for advising the Board on governance matters. The Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training during the year ended 31 December 2016. The details of the Company Secretary are set out under the section headed "Biographies of Directors and Senior Management" of this annual report.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN RESPECT OF FINANCIAL STATEMENTS

The senior management has provided such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board is responsible for presenting a clear and balanced view of the Company's annual and interim reports, inside information announcements, disclosures required under the Listing Rules, and other regulatory requirements. The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended 31 December 2016.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the external auditors of the Company in respect of statutory audit service and agreed-upon procedures were approximately RMB763,000 and RMB284,557, respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for risk management and internal control of the Group and for reviewing its effectiveness. The Board requires the senior management to establish and maintain sound and effective risk management and internal control.

Processes used to identify, evaluate and manage significant risks

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and
- Considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and
- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;
- Revises the risk management strategies and internal control processes in case of any significant change of situation; and
- Reports the results of risk monitoring to the management and the Board regularly.

Main features of the risk management and internal control systems

The internal control framework includes central direction, resources allocation and risk management of the activities of various business units, supported by the human resources, information systems and financial practice. As such, the Group has a clear organisational structure including appropriate segregation of duties and reporting systems. Limits of authorities have been established. Starting from the top, there is a list of matters reserved for Board approval. In carrying out key functions, senior management personnel are assigned levels of authority and accountability commensurate with their positions and duties. There are also relevant policies and procedures applicable to all business units to guide their business operations. All business units are required to produce annual budgets for the senior management's approval. The heads of all business units are required to assess the risk factors attributed to their businesses. In addition, all business units shall submit monthly management reports with comparisons between actual and budget results and give explanations and solutions for major variances.

Control procedures have been designed to safeguard assets against misappropriation and disposition; ensure compliance with relevant laws, rules and regulations; ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication; and to provide reasonable assurance against material misstatement, loss or fraud.

Processes used to review the effectiveness of the risk management and internal control systems and to resolve material internal control defects

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness.

Extensive financial controls, procedures, self-assessment exercises and risk activities are reviewed by the Group's finance department, which is responsible for reviewing the Group's internal control systems, operational efficiency and compliance with the policies and procedures on a regular basis, and ensuring the existence of an effective internal control system in all business units. The finance department performs independent reviews of risks associated with and controls over principal operations and critical applications, and reports to the Audit Committee with its findings and makes recommendations to improve the internal controls of the Group.

CORPORATE GOVERNANCE REPORT

All key controls within the framework will be tested periodically by the finance department. External auditors will also test key controls for those processes which are most critical to producing complete and accurate financial reports. Semi-annual confirmations from chief executives of principal subsidiaries are obtained as to whether the internal controls are working properly and if any remedial actions are required on areas where control weaknesses are noted. External auditors also advise the senior management on whether the controls are in place and effective to ensure a proper financial controlling and reporting process of the Group.

The Board convened meetings periodically to discuss business risks, financial risks, compliance risks and operation and other risks. The Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group, covering all material controls such as financial, operational and compliance controls and risk management functions, and considered that the internal control system and procedures of the Group, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training programs and budget, are adequate and effective and have complied with the provisions of the Corporate Governance Code during the year.

The Board has engaged APAC Compliance Consultancy and Internal Control Services Limited as its risk management and internal control review adviser (the "IC Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2016. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The IC Adviser has reported findings and areas for improvement to the Audit Committee and management. The Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the IC Adviser are properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board therefore considered that the risk management and internal control systems are effective and adequate.

Procedures and internal controls for the handling and dissemination of inside information

The Company's general counsel assesses the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and decides whether the relevant information is considered inside information and needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO. Executive Directors and General Counsel also may have responsibility for approving certain announcements and/or circulars to be issued by the Company under powers delegated by the Board from time to time.

COMMUNICATIONS WITH SHAREHOLDERS

The Group reports to its shareholders twice a year. Interim and annual results are announced as early as possible to keep shareholders informed of the Group's performance. The general meetings of the Company provide a forum for communication between the shareholders and the Board. All shareholders are encouraged to attend the annual general meeting to discuss the progress of the Group's business. The chairman of the Board and the chairmen of the Audit Committee, the Nomination Committee and the Remuneration Committee, or in their absence, other members of the respective Committees, and where applicable, the independent Board committee, are available to answer questions at the general meetings. Separate resolutions are proposed at the general meetings on each substantial issue, including re-election of Directors. The Company's website, which contains corporate information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Group, enables the shareholders to access information on the Group on a timely basis.

Shareholders' Rights

Convening an extraordinary general meeting

Pursuant to article 10.3 of the articles of association of the Company, extraordinary general meetings of the Company (the "EGM(s)") shall also be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company. The EGMs may also be convened on the written requisition of any one member of the Company which is a recognised clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the nominal value of the issued shares in the Company which carries the right of voting at general meetings of the Company.

If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionists(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the EGM in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed the them by the Company.

CORPORATE GOVERNANCE REPORT

Putting enquiries to the Board

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the Company Secretary at the Company's head office and principal place of business in Hong Kong or the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Shareholders may at any time raise any enquiry in respect of the Company via email at the email address of the Company at ir@grandconcord.com.

Shareholders are reminded to lodge their questions together with their detailed contact information in order to receive prompt response from the Company if it deems such response to be appropriate.

Putting forward proposals at Shareholders' meeting

Shareholders can put forward proposed resolutions at a general meeting of the Company by lodging a written notice of his/her/its proposal ("proposed resolution") with his/her/its detailed contact information via email at the email address of the Company at ir@grandconcord.com

The identity of the shareholder and his/her/its request will be verified with the Company's branch share registrar in Hong Kong and upon confirmation by the branch share registrar that the request is proper and in order and made by a shareholder, the Board will determine in its sole discretion whether the proposed resolution may be included in the agenda for the general meeting to be set out in the notice of meeting.

The notice period shall not be less than 21 days in writing if the proposed resolution requires approval by way of an ordinary resolution in an annual general meeting or a special resolution of the Company; and not less than 14 days in writing if the proposed resolution requires approval in meeting other than an annual general meeting or approval by way of a special resolution of the Company.

Shareholders may also lodge their proposed resolutions with the Company through the following means:

Hotline no.: 2891 9882

By post: Unit B, 15/F, 78 Hung To Road, Kwun Tong, Kowloon, Hong Kong

CONSTITUTIONAL DOCUMENTS

The Company's articles of association are available on the websites of the Company and the Stock Exchange. During the year ended 31 December 2016, there is no change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

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

CORPORATE INFORMATION

The Company was incorporated in the British Virgin Islands with limited liability under the Business Companies Act of the British Virgin Islands (2004) on 8 December 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Group are manufacturing of knitted fabrics and innerwear. Details of the principal activities of the Company's principal subsidiaries are set out in note 37 to the consolidated financial statements.

BUSINESS REVIEW

A fair review of the business of the Group as well as a discussion and analysis of the Group's performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' report.

PERMITTED INDEMNITY

The articles of association of the Company provides that every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted.

A directors' liability insurance is in place to protect the Directors with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2016 and its state of affairs as at that date are set out in the consolidated financial statements on pages 70 to 140.

No interim dividend was paid during the year. The Directors did not recommend payment of a final dividend for the year ended 31 December 2016.

REPORT OF THE DIRECTORS

FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report. This summary does not form part of the audited consolidated financial statements.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of the movements in the Company's share capital during the year are set out in note 30 to the consolidated financial statements.

Prior to the listing of the Company's shares, the Company had conditionally adopted a share option scheme (the "Share Option Scheme") on 19 August 2011 which became unconditional and effective on 24 November 2011. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants (as specified in the section headed "Share Option Scheme" in the prospectus of the Company issued on 14 November 2011) as incentives or rewards for their contribution to the Group.

The Board may, at its absolute discretion, grant an option to eligible participant(s) to subscribe for the shares of the Company at an exercise price and subject to the other terms of the Share Option Scheme. The offer of a grant of share options may be accepted within 28 days from the date of offer, with consideration of HK$1 payable by the grantee upon acceptance. The total number of shares of the Company available for issue under the Share Option Scheme and any other schemes of the Company shall not in aggregate exceed 38,000,000 shares of the Company, being approximately 9.2% of the total number of shares of the Company in issue as at the date of this report.

The exercise price of share options is determined by the Board, but shall be at least the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option.

The total number of shares of the Company issued and to be issued upon exercise of the options granted to or to be granted to each eligible participant under the Share Option Scheme and any other schemes of the Company or any of its subsidiaries (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares in issue. The Share Option Scheme will remain in force for a period of 10 years from 24 November 2011. Under the Share Option Scheme, each option has a 10-year exercise period. As at the date of this annual report, no option has been granted under the Share Option Scheme.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2016, the Company's reserves available for distribution amounted to Nil (as at 31 December 2015: Nil).

DIRECTORS

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

Executive Directors

Mr. Wang Bin (appointed on 12 October 2016)
Ms. Tian Ying (appointed on 12 October 2016)
Mr. Lam Tet Foo (appointed on 12 October 2016)
Mr. Wong Kin Ling (resigned on 12 October 2016)
Madam Hung Kin (resigned on 12 October 2016)
Mr. Wang Shao Hua (resigned on 12 October 2016)
Mr. Feng Yongming (retired on 23 May 2016)

Non-executive Directors

Mr. Zhang Yanlin (appointed on 12 October 2016)
Mr. Wei Jin Long (resigned on 12 October 2016)

REPORT OF THE DIRECTORS

Independent non-executive Directors

Mr. Xu Dunkai (appointed on 12 October 2016)
Ms. Feng Xin (appointed on 12 October 2016)
Mr. Hu Quansen (appointed on 12 October 2016)
Mr. Wang Jin Tang (resigned on 12 October 2016)
Ms. Tay Sheve Li (resigned on 12 October 2016)
Dr. Chan Ah Pun (resigned on 12 October 2016)

In accordance with Article 14.2 of the Company's articles of association, Mr. Wang Bin, Ms. Tian Ying, Mr. Lam Tet Foo, Mr. Zhang Yanlin, Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received from each independent non-executive Director an annual confirmation of his independence from the Group, and as at the date of this report still considers them to be independent pursuant to Rule 3.13 of the Listing Rules.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 17 to 21 of this annual report.

CHANGE IN DIRECTORS'/CHIEF EXECUTIVES' INFORMATION

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors/chief executives are set out below:

Mr. Wong Kin Ling, Madam Hung Kin and Mr. Wang Shao Hua were resigned from executive Directors on 12 October 2016. Mr. Feng Yongming was retired from executive Director on 23 May 2016. Mr. Wei Jin Long was resigned from non-executive Director on 12 October 2016. Mr. Wang Jin Tang, Ms. Tay Sheve Li and Dr Chan Ah Pun were resigned from independent non-executive Director on 12 October 2016.

Mr. Wang Bin, Ms. Tian Ying and Mr. Lam Tet Foo were appointed as executive Directors on 12 October 2016. Mr. Zhang Yanlin was appointed as non-executive Director on 12 October 2016. Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen were appointed as independent non-executive Directors on 12 October 2016.

In addition, Mr. Wand Bin was appointed as the Chairman of the Board and Ms. Tian Ying was appointed as the chief executive officer of the Company on 12 October 2016.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors entered into a service contract with the Company for an initial term of three years commencing from 12 October 2016, which shall be renewed and extended automatically by three years on the expiry of such initial term or at any time thereafter. The non-executive Director, namely Mr. Zhang Yanlin entered a service contract with the Company for an initial term of three years commencing from 12 October 2016, which shall be renewed and extended automatically by three years on the expiry of such initial term or at any time thereafter. The appointments of the independent non-executive Directors, namely Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen, have been renewed for a term of three years commencing from 12 October 2016.

No Director proposed for re-election at the forthcoming annual general meeting 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.

DIRECTORS' REMUNERATION

The Board has the general power of determining the Directors' remuneration, subject to authorisation of the shareholders of the Company at the annual general meeting each year. The remuneration of the executive Directors is subject to review by the Remuneration Committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Group. As for the non-executive Directors and independent non-executive Directors, their remuneration is determined by the Board, upon recommendation from the Remuneration Committee. Details of the emoluments of the Directors and the five highest paid individuals are set out in notes 13 and 14, respectively, to the consolidated financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Except for the service contracts and the Share Option Scheme as disclosed in this annual report, there were no transactions, arrangements, or contracts of significance in relation to the business of the Group, to which the Company, its parent company, its subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the Directors and the chief executive of the Company did not have any interests and short positions in the Company's shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, laws of Hong Kong) ("SFO")), as recorded in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this annual report, the Company, its parent company, or any of its subsidiaries or fellow subsidiaries did not, at any time during the year ended 31 December 2016 and up to the date of this annual report, enter into any arrangements, which would enable the Directors, their respective spouses or any of their minor children, to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, and neither the Directors, their respective spouses nor their minor children, had been granted any rights or exercised such rights to subscribe for securities of the Company.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2016, to the best knowledge of the Directors, the records of interest (being 5% or more of the issued share capital of the Company, other than the Directors or the chief executive of the Company) as registered in the register kept by the Company under section 336 of the SFO were as follows:

Name	Capacity	Number of shares[1]	Approximate percentage of shareholding
Junfun Investment Limited	Beneficial owner	260,661,501 (L)	63.28%

Note:

(1) The letter "L" denotes long position in the shares.

RELATED PARTY TRANSACTIONS

Details of the significant related party transactions undertaken in the usual course of business are set out in note 36 to the Consolidated Financial Statements. None of these related party transactions constitutes a connected transaction as defined under the Listing Rules that is required to be disclosed.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors and their respective close associates had any interests in any business, apart from the business of the Group, which competes or likely to compete (either directly or indirectly) with the business of the Group.

NON-COMPETITION UNDERTAKING BY CONTROLLING SHAREHOLDERS

The Company has received annual confirmations from the controlling shareholders, Junfun Investment Limited, in respect of their compliance with the non-competition undertaking provided in favour of the Company. The independent non-executive Directors have reviewed the said undertaking and are of the view that Junfun Investment Limited has complied with the non-competition undertaking during the year ended 31 December 2016.

MANAGEMENT CONTRACTS

Other than the service contracts of the Directors, the Company did not enter into any contract in respect of the management or administration of the entire or any significant part of the business of the Company nor did any such contract subsist at any time during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

PRE-EMPTIVE RIGHTS

There were no provisions of pre-emptive rights under the Company's articles of association or the laws of the British Virgin Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders unless otherwise required by the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

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

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the Group's largest supplier accounted for 5.5% (2015: 6.3%) of the Group's total purchases. The Group's five largest suppliers accounted for 13.5% (2015: 18.7%) of the Group's total purchases.

In the year under review, the Group's sales to its five largest customers accounted for 66.6% (2015: 54.0%) of the Group's total sales. The Group's largest customer accounted for 22.4% (2015: 20.0%) of the Group's total sales.

None of the Directors or any of their close associates (as defined under the Listing Rules) or any shareholders which, to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital has any beneficial interest in the Group's five largest customers or five largest suppliers.

Key relationship with the customers and suppliers

(a) ***Customers***

The Group's customers are mainly based in Mainland China, Japan, the United State and Europe. We have maintained business relationships with most of them for more than five years. Consistent with usual industry practice, the Group does not enter into any long-term sales agreements with its customers, but will request them to place purchase orders with us for every season. Our team is committed to providing customers with high quality products and efficient after sales services. The Directors regard the interest of customers as one of our top priorities.

(b) *Suppliers*

We carefully select our suppliers based on various criteria, including but not limited to: (i) the quality of the products supplied by them; (ii) their ability to deliver products to us in a timely manner; and (iii) their reputation in the industry. We have maintained business relationships with most of our suppliers for more than five years.

The Directors consider that it is commercially beneficial to build up a close and long-term business relationship with our suppliers as our long-term collaboration would allow us to provide reliable and quality products to our customers.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The Audit Committee was established on 19 August 2011 with written terms of reference in compliance with the Listing Rules. The Audit Committee is responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditor; monitoring integrity of the financial statements, the annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and reviewing the financial controls, internal control and risk management systems.

The Audit Committee has reviewed the Company's internal controls and risk management process, financial reporting and compliance procedures and financial results and reports, including review of the audited consolidated financial statements of the Group for the year ended 31 December 2016. The consolidated financial statements for the year ended 31 December 2016 have been audited by the Company's external auditors, SHINEWING (HK) CPA Limited.

CORPORATE GOVERNANCE

The Company has published its corporate governance report, which is set out on pages 44 to 56 of this annual report.

AUDITOR

During the year, SHINEWING (HK) CPA Limited were appointed as the external auditors of the Company.

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint SHINEWING (HK) CPA Limited as the external auditors of the Company.

On behalf of the Board

Wang Bin
Chairman

Hong Kong, 30 March 2017

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF GRAND CONCORD INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the British Virgin Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Concord International Holdings Limited (the "Company") and its subsidiaries set out on pages 70 to 140, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT

Impairment assessment on trade and bills receivables

Refer to note 22 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
The Group has trade and bills receivables of approximately RMB48,306,000. It is a key audit matter due to its significance to the consolidated financial statements and involving a significant degree of judgment of the directors of the Company in assessing the impairment of the trade and bills receivables.	Our procedures were designed to review the management's assessment of recoverability of trade and bills receivables and challenge the reasonableness of the methods and assumptions used. We have discussed the indicators of possible impairment with the management and, where such indicators were identified, assessed the management's impairment testing. Besides, we have challenged the assumptions and critical judgment used by the management by assessing the reliability of the management's past estimates and taking into account the ageing at year end, credit-worthiness of the customers during the year and subsequent cash received after the end of the reporting period.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance' and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wing Kit.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Chan Wing Kit
Practising Certificate Number: P03224

Hong Kong
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
Revenue	7	**334,297**	389,317
Cost of sales		**(271,456)**	(314,138)
Gross profit		**62,841**	75,179
Other income and gains	9	**3,281**	6,866
Change in fair value in respect of convertible bonds		**–**	(11,220)
Selling and distribution expenses		**(8,869)**	(10,979)
Administrative expenses		**(60,652)**	(56,358)
Finance costs	10	**(4,720)**	(5,403)
Loss before tax		**(8,119)**	(1,915)
Income tax expense	11	**(4,420)**	(5,039)
Loss for the year	12	**(12,539)**	(6,954)
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translating foreign operations		**2,993**	(507)
Other comprehensive income (expense) for the year, net of income tax		**2,993**	(507)
Total comprehensive expense for the year		**(9,546)**	(7,461)
Loss per share:			
– Basic and diluted (RMB)	16	**(0.03)**	(0.02)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	17	**199,890**	213,142
Goodwill	18	**–**	1,008
Prepaid lease payments	19	**11,532**	11,830
Deposits paid to acquire property, plant and equipment		**472**	363
Deferred tax assets	20	**502**	444
		212,396	226,787
Current assets			
Inventories	21	**44,482**	58,394
Trade and bills receivables	22	**48,306**	82,321
Prepayments and other receivables	23	**13,010**	24,823
Prepaid lease payments	19	**297**	297
Income tax recoverable		**–**	103
Restricted bank deposits	24	**3,225**	15,984
Cash and bank balances	24	**109,876**	76,175
		219,196	258,097
Current liabilities			
Trade and bills payables	25	**31,914**	62,177
Accruals and other payables	26	**17,053**	17,444
Advance from customers		**1,838**	2,000
Interest-bearing borrowings	27	**88,000**	97,412
Derivatives embedded in convertible bonds	28	**–**	87
Convertible bonds	28	**–**	4,388
Income tax payables		**1,110**	190
		139,915	183,698
Net current assets		**79,281**	74,399
Total assets less current liabilities		**291,677**	301,186
Non-current liability			
Deferred tax liabilities	20	**609**	572
Net assets		**291,068**	300,614

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital	29	**91,106**	91,106
Reserves		**199,962**	209,508
Total equity		**291,068**	300,614

The consolidated financial statements on pages 70 to 140 were approved and authorised for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

Mr. Wang Bin
Director

Ms. Tian Ying
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to owners of the Company						
	Share capital	Statutory reserve	Exchange reserve	Special reserve	Other reserve	Retained earnings	Total
	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000 (Note (b))	RMB'000 (Note (c))	RMB'000	RMB'000
As at 1 January 2015	46,938	36,728	958	(83)	5,800	179,695	270,036
Loss for the year	–	–	–	–	–	(6,954)	(6,954)
Other comprehensive expense for the year:							
Exchange differences arising on translating foreign operations	–	–	(507)	–	–	–	(507)
Total comprehensive expense for the year	–	–	(507)	–	–	(6,954)	(7,461)
Conversion of convertible bonds (note 28)	44,168	–	–	–	–	–	44,168
Appropriations to statutory reserve	–	463	–	–	–	(463)	–
Dividend recognised as distribution	–	–	–	–	–	(6,129)	(6,129)
As at 31 December 2015 and 1 January 2016	91,106	37,191	451	(83)	5,800	166,149	300,614
Loss for the year	–	–	–	–	–	(12,539)	(12,539)
Other comprehensive income for the year:							
Exchange differences arising on translation of foreign operations	–	–	2,993	–	–	–	2,993
Total comprehensive income (expense) for the year	–	–	2,993	–	–	(12,539)	(9,546)
As at 31 December 2016	91,106	37,191	3,444	(83)	5,800	153,610	291,068

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes:

(a) Statutory reserve

The statutory reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries. In accordance with the relevant laws and regulations of the PRC and the articles of association of the Group's PRC subsidiaries, they are required to appropriate 10% of its net profits determined in accordance with China Accounting Standards for Enterprises issued by the Ministry of Finance of China, after offsetting any prior years' losses, to the statutory surplus reserve. When the balance of such a reserve reached 50% of the respective companies' registered capital, any further appropriation is optional.

(b) Special reserve

Special reserve represents the difference between the aggregate amount of issued and fully paid share capital of the subsidiary acquired by the Company and the nominal amount of the shares issued by the Company in exchange for the entire equity interest in the subsidiary as part of the group reorganisation.

(c) Other reserve

On 7 March 2011, in recognition of the services of two senior executives of the Group's subsidiaries, Global Wisdom Capital Holdings Limited, being the Company's former holding company, transferred a total of 1,300,000 shares of the Company to the executives of the Company. The shares consideration was paid by the executives in cash by three installments which was fully settled on 7 March 2011, 7 March 2012 and 7 March 2013.

The transaction was accounted for as an equity settled share-based payment and accordingly, the difference between the fair value of past services rendered by the employees and the net present values of the consideration payable by the employees in respect of the share transferred, amounted to RMB5,800,000, was recorded as other reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES			
Loss before tax		**(8,119)**	(1,915)
Adjustments for:			
Depreciation of property, plant and equipment		**25,980**	24,704
Reversal of impairment loss on inventories		**(306)**	(119)
Amortisation of prepaid lease payments		**298**	297
Net gain on disposal of property, plant and equipment		**(236)**	(650)
Impairment loss on goodwill		**1,008**	–
Finance costs		**4,720**	5,403
Interest income		**(950)**	(868)
Transaction costs relating to the derivative component of convertible bonds		**–**	964
Change in fair value in respect of convertible bonds		**–**	11,220
Cash generated from operation before movements in working capital		**22,395**	39,036
Decrease (increase) in inventories		**14,357**	(3,890)
Decrease (increase) in trade and bills receivables		**29,081**	(1,854)
Decrease (increase) in prepayments and other receivables		**11,848**	(7,899)
Decrease in trade and bills payables		**(30,601)**	(2,092)
Decrease in accruals and other payables		**(427)**	(1,295)
(Decrease) increase in advance from customers		**(188)**	86
Cash generated from operations		**46,465**	22,092
PRC income tax paid		**(2,341)**	(4,817)
Withholding tax paid		**(1,038)**	–
NET CASH GENERATED FROM OPERATING ACTIVITIES		**43,086**	17,275
INVESTING ACTIVITIES			
Net cash outflow on acquisition of a subsidiary	30	**–**	(1,242)
Purchase of property, plant and equipment		**(12,569)**	(23,287)
Deposits paid to acquire property, plant and equipment		**(472)**	(363)
Advance to an independent third party		**–**	(5,000)
Repayment from an independent third party		**5,000**	–
Withdraw for restricted bank deposits		**(38,709)**	–
Replacement of restricted bank deposits		**51,468**	1,548
Proceeds from disposal of property, plant and equipment		**610**	1,122
Interest received		**950**	714
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**6,278**	(26,508)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
FINANCING ACTIVITIES		
Repayment of borrowings	**(126,412)**	(130,796)
New borrowings raised	**117,000**	140,000
Repayment of convertible bonds	**(4,835)**	–
Proceeds from issue of convertible bonds	**–**	39,683
Expenses on issue of convertible bonds	**–**	(3,571)
Dividends paid	**–**	(6,129)
Interest paid	**(4,465)**	(5,366)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES	**(18,712)**	33,821
NET INCREASE IN CASH AND CASH EQUIVALENTS	**30,652**	24,588
CASH AND CASH EQUIVALENTS AS AT 1 JANUARY	**76,175**	51,925
Effect of foreign exchange rate changes	**3,049**	(338)
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER, represented by cash and bank balances	**109,876**	76,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATION

Grand Concord International Holdings Limited (the "Company"), which acts as an investment holding company, was incorporated in the British Virgin Islands (the "BVI") with limited liability under the Business Companies Act of the BVI (2004) (the "Companies Act") on 8 December 2010. The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 November 2011. The address of the registered office is located at P.O. Box 3340, Road Town, Tortola, BVI and its principle place of business in Hong Kong is located at Unit B, 15/F, 78 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company and its subsidiaries (the "Group") are engaged in the manufacturing of innerwear products and knitted fabrics. After the disposal of shares by the former ultimate shareholder, the ultimate holding company of the Company is changed to Junfun Investment Limited ("Junfun"), a limited liability company incorporated in the Cayman Islands.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries which established and operated in the People's Republic of China (the "PRC"). Other than those subsidiaries established in the PRC, the functional currency of a subsidiary established in Myanmar is denoted in Khamed ("MMK").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations ("Int(s)"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014–2016 Cycle[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective date not yet been determined.
5 Amendments to HKFRS 12 are effective for annual periods beginning on or after 1 January 2017, and amendments to HKFRS 1 and amendments to HKAS 28 are effective for annual periods beginning on or after 1 January 2018.

The directors of the Company anticipate that, except as described below, the application of new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an "expected credit loss" model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 9 (2014) Financial Instruments (continued)

- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014), it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in HKAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. HKFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. It is not practicable to provide reasonable estimate of the effect of HKFRS 9 (2014) until a detailed review has been completed.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

i) Identify the contract with the customer;

ii) Identify the performance obligations in the contract;

iii) Determine the transaction price;

iv) Allocate the transaction price to the performance obligations; and

v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until a detail review is completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised HKFRSs issued but not yet effective (continued)

HKFRS 16 Leases (continued)

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16. As at 31 December 2016, the group has non-cancellable operating lease commitments of RMB4,353,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the group's accounting policies.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Company reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Company obtains control of the subsidiary and cease when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in subsidiaries

Investments in subsidiaries are stated on the statement of financial position of the Company at cost less accumulated impairment loss, if any.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of the exchange reserve.

Leasing

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Research expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Retirement benefits and termination costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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 added to 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are 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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is recognised on temporary 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. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probably that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets 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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, 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.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and bank balances in the consolidated statements of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and bank balances as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets comprise loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, restricted bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Impairment loss of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all the financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter into bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Impairment loss of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and bills receivable and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities (including trade and bills payables, accruals and other payables and interest-bearing borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Equity instruments

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

Offsetting financial instruments

Financial assets and liabilities of the Group are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Convertible bonds

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative together with other embedded derivatives is measured at fair value with changes in fair value recognised in profit or loss. No gain or loss is recognized in profit or loss upon conversion or expiration of option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derivative financial instruments (continued)

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

A financial asset is derecognised only when contractual rights to the cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on tangible assets (continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Share-based payment

Shares transferred to employees

The fair value of services received are determined by reference to the fair value of the Company's shares received by the employees of the Company and net with the net present value of the consideration paid by the employees, and is recognised as an expense when the shares transferred immediately, with a corresponding increase in equity (other reserve).

Fair value measurement

When measuring fair value except for the Group's share-based payment transactions, leasing transactions, net realisable value of inventories and value in use of tangible assets for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follows:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities reported and disclosures made in the consolidated financial statements. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are 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 resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful lives and residual values of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment, and if the expectation differs from the original estimate, such a difference may impact the depreciation charged in the year and the estimate will be changed in the future period. As at 31 December 2016, the carrying amount of property, plant and equipment was approximately RMB199,890,000 (2015: RMB213,142,000).

Impairment of inventories

The Group reviews an ageing analysis at the end of each reporting period, and makes impairment for obsolete and slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices. As at 31 December 2016, the carrying amount of inventories was approximately RMB44,482,000 (2015: RMB58,394,000), net of the accumulated impairment losses of inventories approximately RMB2,160,000 (2015: RMB2,466,000).

Impairment of trade and bills receivables and other receivables

The Group makes impairment based on assessment of the recoverability of trade and other receivables. The Group makes its estimates based on the aging of its trade and other receivables balances, debtors' creditworthiness, and historical write-off experience. If the financial condition of its debtors was deteriorated and resulted in an impairment of their ability to make payments, impairment loss may be required. As at 31 December 2016, the carrying amount of trade and bills receivables was approximately RMB48,306,000 (2015: RMB82,321,000), net of allowance for doubtful debts of approximately RMB39,000 (2015: RMB39,000). As at 31 December 2016, the carrying amount of other receivables was approximately RMB5,646,000 (2015: RMB16,766,000) and no impairment on other receivables was made as at 31 December 2016 and 2015.

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment was recognised for the amounts by which the carrying amounts exceed their recoverable amounts, in accordance with the Group's accounting policy. The recoverable amounts of property, plant and equipment are the greater of the fair value less costs to sell and value-in-use. In determining the recoverable amount, use of estimate such as the future revenue and discount rates is required. As at 31 December 2016, the carrying amount of property, plant and equipment was approximately RMB199,890,000 (2015: RMB213,142,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Income taxes

As at 31 December 2016, net deferred tax asset of approximately RMB502,000 (2015: RMB444,000), in relation to unused tax losses, unrealised profit on inventories and accelerated tax depreciation, has been recognised in the Group's consolidated statements of financial position. No deferred tax asset has been recognised on tax losses arising in PRC and Hong Kong of approximately RMB51,699,000 (2015: RMB50,338,000) as at 31 December 2016, due to unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

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. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is nil (2015: RMB1,008,000). Impairment loss on goodwill amounted to approximately RMB1,008,000 (2015: nil) has been recognised during the year ended 31 December 2016.

5. CAPITAL RISK 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 year.

The capital structure of the Group consists of net debt, which includes the interest-bearing borrowings as disclosed in note 27, net of cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company regularly review the capital structure. As part of this review, the directors of the Company consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new shares issues, new borrowings raised or repayment of existing borrowings.

6. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**163,212**	180,408
Financial liabilities		
At amortised cost	**133,901**	180,569
At FVTPL		
Derivatives embedded in convertible bonds	**–**	87

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, restricted bank deposits, cash and bank balances, trade and bills payables, accruals and other payables, interest-bearing borrowings, convertible bonds and derivative embedded in convertible bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, market risk (currency risk and interest rate risk) and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties, is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverability of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group aims at broadening the customer bases by developing the PRC, Japan and the United States markets for innerwear products. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

As at 31 December 2016, the Group's concentration of credit risk by geographical locations is mainly in Japan and the PRC which accounted for 6% (2015: 8%) and 80% (2015: 86%) respectively of the total receivables.

As at 31 December 2016, the Group has concentration of credit risk as 1% (2015: 1%) and 52% (2015: 25%) of the total trade receivables was due from the Group's largest and five largest customers respectively.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Market risk

Foreign currency risk

The Group has foreign currency sales, which expose the Group to foreign currency risk. During the year ended 31 December 2016, approximately 61% (2015: 53%), of the Group's sales are denominated in United States dollars ("USD") other than the functional currencies of the group entities making the sales, whilst almost 100% (2015: 100%) of costs are denominated in the group entity's respective functional currencies.

Also, certain trade and other receivables, cash and bank balances, other payables, convertible bonds and derivative embedded in convertible bonds are denominated in USD, Renminbi ("RMB") and Hong Kong dollars ("HKD") which are currencies other than the functional currency of the relevant group entities. The carrying amounts of the Group's major foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	2016	2015
	RMB'000	RMB'000
Assets		
USD	**13,211**	3,807
HKD	**5,903**	14,598
RMB	**73**	3,416
Liabilities		
HKD	**1,552**	4,819

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company continuously monitor the related foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

The Group entities are mainly exposed to the fluctuation of USD, RMB and HKD.

The following table details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in the functional currency of the relevant group entities against the relevant foreign currencies. 5% (2015: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in relevant foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2015: 5%) change in foreign currency rates.

A positive number below indicates a decrease in post-tax loss where the foreign currency strengthens 5% (2015: 5%) against the relevant functional currency. For a 5% (2015: 5%) weakening of the foreign currency against the relevant functional currency, there would be an equal and opposite impact on the profit or loss.

	USD impact (Note b)	
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Decrease in loss	**495**	143

	HKD impact (Note a)	
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Decrease in loss	**163**	367

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis (continued)

	RMB Impact (Note c)	
	Year ended 31 December 2016 RMB'000	Year ended 31 December 2015 RMB'000
Decrease in loss	**3**	128

Notes:

(a) This is mainly attributable to the exposure on HKD denominated cash and bank balances, other receivables and other payables at the end of each reporting period.

(b) This is mainly attributable to the exposure on USD denominated cash and bank balances and trade receivables at the end of each reporting period.

(c) This is mainly attributable to the exposure on RMB denominated cash and bank balances at the end of each reporting period.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed rate bank borrowings (note 27), convertible bonds (note 28) and certain other receivables (note 23) and cash flow interest rate risk in relation to variable-rate interest-bearing restricted bank deposits (note 24), bank balances (note 24) and borrowings (note 27). The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rate offered from the People's Bank of China arising from the Group's interest-bearing borrowings.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analyses have been determined based on the exposure to interest rates for non-derivative instruments including restricted bank deposits, bank balances and interest-bearing borrowings at the end of the reporting period. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rate.

If interest rates had been 100 basis points (2015: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2016 (2015: post-tax loss) would increase or decrease (2015: increase or decrease) by approximately RMB87,000 (2015: RMB326,000).

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

At 31 December 2016, the Group's remaining maturity for its financial liabilities is mainly within one year from the end of the reporting period. In the opinion of the directors of the Company, the carrying amounts of the financial liabilities are the same as the undiscounted cash flows based on the earliest date on which the Group can be required to pay and therefore, no further analysis is presented in the consolidated financial statements.

The following table details the Group's remaining contractual maturities 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 date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

As at 31 December 2016	On demand or within one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities			
Trade and bills payables	**31,914**	**31,914**	**31,914**
Accruals and other payables	**13,987**	**13,987**	**13,987**
Interest-bearing borrowings			
– fixed rate	**40,555**	**40,555**	**40,000**
– variable rate	**49,322**	**49,322**	**48,000**
	135,778	**135,778**	**133,901**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As at 31 December 2015	On demand or within one year RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
Non-derivative financial liabilities			
Trade and bills payables	62,177	62,177	62,177
Accruals and other payables	16,592	16,592	16,592
Interest-bearing borrowings			
– fixed rate	40,465	40,465	40,000
– variable rate	58,787	58,787	57,412
Convertible bonds	4,837	4,837	4,388
	182,858	182,858	180,569
Derivative net settlement			
Derivative embedded in convertible bonds	87	87	87

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

c. Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments of the Group that are measured at fair value on a recurring basis at the end of each reporting period for recurring and non-recurring measurement, grouped into Levels 1 to 3 based on the degree to which the fair value is observable in accordance to the Group's accounting policy. No such financial liabilities at FVTPL as at 31 December 2016.

	2015			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities at FVTPL				
Derivative embedded in convertible bonds	–	–	87	87

There was no transfer between levels of fair value hierarchy in the current year.

6. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value measurements recognised in the statement of financial position (continued)

The valuation techniques and inputs used in Level 3 fair value measurements of financial instruments as set out below:

	Valuation technique and key input(s)	Significant unobservable input(s)
Derivative financial instrument – derivative embedded in convertible bonds	Binomial model based on the share price, volatility, risk free rate, borrowing rate, effective interest rate, option life, dividend yield	Dividend yield taking into account management's expectation of market conditions of specific industries at 2% (Note)

Note: A 5% increase in the dividend yield used in isolation would result in a decrease in the fair value measurement of the derivative component of the convertible bonds by approximately RMB1,000, and vice versa.

Details of reconciliation of Level 3 fair value measurements for derivatives components of the convertible bonds are set out in note 28.

Valuation process

Some of the Group's assets are measured at fair value for financial reporting purposes. The appropriate valuation techniques and inputs for the fair value measurements are determined by the directors of the Company and the independent qualified valuer.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 3 inputs are not available, the Group engages independent qualified valuer to perform the valuation. The directors of the Company work closely with the independent qualified valuer to establish the appropriate valuation techniques and inputs to the model. The directors of the Company will review the cause of fluctuations in fair value of the assets and liabilities annually.

The fair value of the non-derivative financial assets and non-derivative financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using the relevant prevailing market rates.

The directors of the Company consider that the carrying amounts of current financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their immediate or short-term maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value measurements recognised in the statement of financial position (continued)

Valuation process (continued)

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The directors of the Company consider the fair values of the other non-current liabilities approximate their carrying amounts.

7. REVENUE

Revenue represents the amounts received and receivable for sales of innerwear products and knitted fabrics, net of discounts and sales related taxes. Revenue is analysed as follows:

	2016	2015
	RMB'000	RMB'000
Innerwear products	**237,015**	238,266
Knitted fabrics	**97,282**	151,051
	334,297	389,317

8. SEGMENT INFORMATION

The Group's operating segments, by category of products, based on information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment are as follows:

1) Innerwear products – manufacturing of innerwear and garments

2) Knitted fabrics – manufacturing of fabrics

Segment revenues and results

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

	Year ended 31 December 2016		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
Revenue			
External sales	237,015	97,282	334,297
Inter-segment revenue	157,913	47,731	205,644
Segment revenue	394,928	145,013	539,941
Elimination			(205,644)
Group's revenue			334,297
Segment profit (loss)	15,103	(7,196)	7,907
Other income			910
Finance costs			(4,720)
Unallocated head office and corporate expenses			(12,216)
Loss before tax			(8,119)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT INFORMATION (CONTINUED)

Segment revenues and results (continued)

	Year ended 31 December 2015		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
Revenue			
External sales	238,266	151,051	389,317
Inter-segment revenue	110,812	50,504	161,316
Segment revenue	349,078	201,555	550,633
Elimination			(161,316)
Group's revenue			389,317
Segment profit	9,646	11,280	20,926
Other income			715
Finance costs			(5,403)
Unallocated head office and corporate expenses			(18,153)
Loss before tax			(1,915)

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of prepaid land lease payments, interest income on banks, directors' emoluments, change in fair value in respect of convertible bonds, finance costs and unallocated head office and corporate expenses. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market price.

8. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities

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

	Year ended 31 December 2016		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
Segment assets	**172,675**	**144,479**	**317,154**
Unallocated assets:			
Property, plant and equipment			**262**
Cash and bank balances			**109,876**
Restricted bank deposits			**3,225**
Deferred tax assets			**502**
Prepayments			**199**
Other receivables			**374**
Consolidated assets			**431,592**
Segment liabilities	**32,189**	**16,989**	**49,178**
Unallocated liabilities:			
Other payables			**1,627**
Income tax payables			**1,110**
Interest-bearing borrowings			**88,000**
Deferred tax liabilities			**609**
Consolidated liabilities			**140,524**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT INFORMATION (CONTINUED)

Segment assets and liabilities (continued)

	Year ended 31 December 2015		
	Innerwear products RMB'000	Knitted fabrics RMB'000	Total RMB'000
Segment assets	176,731	214,670	391,401
Unallocated assets:			
Property, plant and equipment			586
Cash and bank balances			76,175
Restricted bank deposits			15,984
Deferred tax assets			444
Prepayments			36
Other receivables			155
Income tax recoverable			103
Consolidated assets			484,884
Segment liabilities	49,667	31,450	81,117
Unallocated liabilities:			
Other payables			504
Income tax payables			190
Interest-bearing borrowings			97,412
Convertible bonds			4,388
Derivatives embedded in convertible bonds			87
Deferred tax liabilities			572
Consolidated liabilities			184,270

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

- all assets are allocated to operating segments other than property, plant and equipment for general operation, prepayments for general operation, certain prepayments and other receivables, deferred tax assets, income tax recoverable, restricted bank deposits and cash and bank balances.

- all liabilities are allocated to operating segments other than other payables for general operation, income tax payables, interest-bearing borrowings, derivatives embedded in convertible bonds, convertible bonds and deferred tax liabilities.

8. SEGMENT INFORMATION (CONTINUED)

Other segment information

	Year ended 31 December 2016			
	Innerwear products RMB'000	**Knitted fabrics RMB'000**	**Unallocated RMB'000**	**Total RMB'000**
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	**11,690**	**14,300**	**288**	**26,278**
Net gain on disposal of property, plant and equipment	**(21)**	**(182)**	**(33)**	**(236)**
Additions to property, plant and equipment	**10,507**	**2,532**	**–**	**13,039**

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:

Bank interest income	**(793)**	**(115)**	**(2)**	**(910)**
Finance costs	**2,784**	**1,541**	**395**	**4,720**
Income tax expense	**3,340**	**53**	**1,027**	**4,420**

	Year ended 31 December 2015			
	Innerwear products RMB'000	Knitted fabrics RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:				
Depreciation and amortisation	10,620	14,045	336	25,001
Net gain on disposal of property, plant and equipment	(43)	(607)	–	(650)
Additions to property, plant and equipment	8,507	5,164	33	13,704

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:

Bank interest income	(576)	(110)	(29)	(715)
Finance costs	3,276	1,833	294	5,403
Income tax expense	3,260	1,207	572	5,039

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. SEGMENT INFORMATION (CONTINUED)

Geographical information

Information about the Group's revenue from external customers is presented based on the destination where the products are delivered. Information about the Group's non-current assets is presented based on geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Japan	**181,254**	150,637	**–**	–
The PRC (country of domicile)	**129,004**	209,942	**210,967**	224,592
United States	**3,553**	11,450	**–**	–
Others	**20,486**	17,288	**927**	1,751
	334,297	389,317	**211,894**	226,343

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2016	2015
	RMB'000	RMB'000
Customer A (note (a))	**75,035**	77,651
Customer B (note (a))	**66,148**	57,072
Customer C (note (b))	**58,701**	40,353

Notes:

(a) Revenue from manufacture of innerwear products and from overseas customers.

(b) Revenue from manufacture of knitted fabrics and from the PRC customer.

9. OTHER INCOME AND GAINS

	2016	2015
	RMB'000	RMB'000
Bank interest income	**910**	715
Interest income on other receivable	**40**	153
Sales of scrap materials	**929**	551
Development and design income for samples	**–**	35
Net gain on disposal of property, plant and equipment	**236**	650
Government grants (note)	**459**	160
Exchange gain, net	**582**	4,407
Others	**125**	195
	3,281	6,866

Note: Government grants recognised as other income are awarded to the Group by the PRC government as incentives primarily to encourage the development of the Group and the contribution to the local economic development. The government grants are one-off with no specific condition attached.

10. FINANCE COSTS

	2016	2015
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	**4,465**	5,366
Loss on redemption of convertible bonds	**243**	–
Effective interest expense on convertible bonds (note 28)	**119**	294
Total borrowing costs	**4,827**	5,660
Less: amounts capitalised in the cost of qualifying assets	**(107)**	(257)
	4,720	5,403

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.0% (2015: 5.2%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
PRC Enterprise Income Tax (the "EIT")		
– Provision for the year	**3,364**	4,758
– Over provision in prior years	**–**	(292)
Withholding tax	**1,038**	–
Deferred tax (note 20)	**18**	573
	4,420	5,039

(a) Overseas income tax

Pursuant to the rules and regulations of the BVI, the BVI subsidiary and the Company are not subject to any income tax in the BVI.

Pursuant to the rules and regulations of Myanmar, the Myanmar subsidiary is subject to income tax at 25%. For the years ended 31 December 2016 and 2015, no provision for Myanmar Corporate Tax had been made as there was no estimated assessable profit derived from the Myanmar subsidiary.

(b) Hong Kong Profits Tax

The applicable tax rate for the subsidiaries incorporated in Hong Kong is 16.5% for the years ended 31 December 2016 and 2015 and no provision for Hong Kong Profits Tax had been made as there was no estimated assessable profit derived from Hong Kong subsidiaries.

(c) EIT

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

11. INCOME TAX EXPENSE (CONTINUED)

(d) Withholding tax

According to the joint circular of the Ministry of Finance and State Administration of Taxation – Cai Shui 2008 No. 1, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards.

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

	2016 **RMB'000**	2015 RMB'000
Loss before tax	**(8,119)**	(1,915)
Tax at the domestic income rate of 25% (2015: 25%)	**(2,030)**	(479)
Tax effect of income not taxable for tax purpose	**(41)**	(373)
Tax effect of expenses not deductible for tax purpose	**2,797**	4,029
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**1,075**	572
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,055**	1,685
Tax effect of tax losses not recognised	**2,608**	323
(Over) provision in respect of prior years	**–**	(292)
Utilisation of tax losses previously not recognised	**(1,044)**	(426)
Tax charge for the year	**4,420**	5,039

Details of deferred tax are set out in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. LOSS FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Salaries and other benefits	**86,582**	86,957
Contributions to retirement benefit scheme	**9,866**	8,402
Total staff costs (including directors' emoluments)	**96,448**	95,359
Auditor's remuneration	**763**	677
Amortisation of prepaid lease payments	**298**	297
Cost of inventories recognised as an expense	**271,762**	314,138
Depreciation of property, plant and equipment	**25,980**	24,704
Net gain on disposal of property, plant and equipment	**(236)**	(650)
Reversal of impairment on inventories (included in cost of sales)	**(306)**	(119)
Impairment loss on goodwill (included in administrative expenses)	**1,008**	–
Loss on redemption of convertible bonds (included in finance costs)	**243**	–
Operating lease rentals in respect of rented premises	**1,661**	1,292

13. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company were as follows:

For the year ended 31 December 2016

Name of Director	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Wong Kin Ling (resigned on 12 October 2016)	–	820	12	832
Madam Hung Kin (resigned on 12 October 2016)	–	1,094	12	1,106
Mr. Wang Shao Hua (resigned on 12 October 2016)	–	774	3	777
Mr. Wei Jin Long (Note (b))	–	–	–	–
Mr. Feng Yongming (Note (a))	–	104	–	104
Mr. Wang Bin (appointed on 12 October 2016)	–	214	–	214
Ms. Tian Ying (appointed on 12 October 2016)	–	214	–	214
Mr. Lam Tet Foo (appointed on 12 October 2016)	–	178	–	178
	–	3,398	27	3,425
Non-executive directors				
Mr. Wei Jin Long (Note (b))	80	2	3	85
Mr. Zhang Yanlin (appointed on 12 October 2016)	36	–	–	36
	116	2	3	121
Independent non-executive directors				
Mr. Wang Jin Tang (resigned on 12 October 2016)	80	–	–	80
Ms. Tay Sheve Li (resigned on 12 October 2016)	213	–	–	213
Dr. Chan Ah Pun (resigned on 12 October 2016)	141	–	–	141
Mr. Xu Dunkai (appointed on 12 October 2016)	27	–	–	27
Ms. Feng Xin (appointed on 12 October 2016)	27	–	–	27
Mr. Hu Quanse (appointed on 12 October 2016)	27	–	–	27
	515	–	–	515
Total	631	3,400	30	4,061

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For the year ended 31 December 2016

13. DIRECTORS' EMOLUMENTS (CONTINUED)

For the year ended 31 December 2015

Name of Director	Fees	Salaries and other benefits	Contributions to retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors				
Mr. Wong Kin Ling	–	1,450	14	1,464
Madam Hung Kin	–	1,507	15	1,522
Mr. Wang Shao Hua	–	2,561	5	2,566
Mr. Wei Jin Long (Note (b))	–	346	3	349
Mr. Feng Yongming (Note (a))	–	–	–	–
	–	5,864	37	5,901
Non-executive director				
Mr. Wei Jin Long (Note (b))	64	–	–	64
	64	–	–	64
Independent non-executive directors				
Mr. Wang Jin Tang	120	–	–	120
Ms. Tay Sheve Li	206	–	–	206
Dr. Chan Ah Pun	137	–	–	137
	463	–	–	463
Total	527	5,864	37	6,428

The amounts above represent emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking. No emoluments were paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

No directors of the Company waived or agreed to waive any emolument paid by the Group during the years ended 31 December 2016 and 2015. No emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2016 and 2015.

The Company does not have any officer with the title of chief executive before the appointment of Ms. Tian Ying mentioned below. The duties of a chief executive are undertaken by Mr. Wong Kin Ling, chairman of the board of the directors and her emoluments disclosed above include those for services rendered by her as chairman of the board of the directors and the Chief Executive Officer. He resigned as the executive director from the Group on 12 October 2016.

Ms. Tian Ying was appointed as Chief Executive Officer of the Group on 12 October 2016 and her emoluments disclosed above include those for services rendered by her as the Chief Executive Officer.

Notes:

(a) Mr. Feng Yongming was appointed as an executive director on 30 April 2015 and retired on 23 May 2016.

(b) Mr. Wei Jin Long was re-designated from an executive director to a non-executive director on 23 June 2015 and resigned on 12 October 2016.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2015: three) were directors of the Company whose emoluments are included in the disclosure in note 13 above. The emoluments of the remaining two (2015: two) individual was as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**1,262**	1,486
Contributions to retirement benefit scheme	**31**	20
	1,293	1,506

Their emoluments were within the following bands:

	2016 No. of Employees	2015 No. of Employees
Nil to HKD1,000,000 (2016: equivalent to nil to approximately RMB806,000, 2015: equivalent to nil to approximately RMB806,000)	**2**	1
HKD1,000,001 to HKD1,500,000 (2016: nil, 2015: equivalent to approximately RMB792,001 to approximately RMB1,188,300)	**–**	1

No emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office during the years ended 31 December 2016 and 2015.

15. DIVIDENDS

No dividend was proposed during the year ended 31 December 2016, nor has any dividend been proposed since the end of the respective period (2015: nil).

16. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2016 is based on the loss attributable to owners of the Company of approximately RMB12,539,000 (2015: RMB6,954,000) and the weighted average of 411,947,330 ordinary shares (2015: 398,242,285) in issue during the year.

For the years ended 31 December 2015 and 2016, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in a decrease in loss per share.

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For the year ended 31 December 2016

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST:							
As at 1 January 2015	145,814	12,603	122,019	9,367	8,603	19,931	318,337
Additions	–	2,060	4,243	1,365	406	5,630	13,704
Acquired on acquisition of a subsidiary	–	–	234	–	–	–	234
Disposals	(433)	–	(564)	(177)	(1,152)	–	(2,326)
Transfer from construction in progress	24,452	964	145	–	–	(25,561)	–
Exchange adjustments	–	–	–	7	79	–	86
As at 31 December 2015 and 1 January 2016	169,833	15,627	126,077	10,562	7,936	–	330,035
Additions	106	2,709	3,023	454	1,864	4,883	13,039
Disposals	(262)	–	(274)	(84)	(1,785)	–	(2,405)
Exchange adjustments	–	–	3	14	142	–	159
As at 31 December 2016	169,677	18,336	128,829	10,946	8,157	4,883	340,828
ACCUMULATED DEPRECIATION:							
As at 1 January 2015	22,222	7,689	51,068	6,177	6,838	–	93,994
Provided for the year	8,089	2,311	11,696	1,677	931	–	24,704
Eliminated on disposals	(180)	–	(355)	(177)	(1,142)	–	(1,854)
Exchange adjustments	–	–	–	4	45	–	49
As at 31 December 2015 and 1 January 2016	30,131	10,000	62,409	7,681	6,672	–	116,893
Provided for the year	8,521	3,199	12,043	1,416	801	–	25,980
Eliminated on disposals	(33)	–	(198)	(84)	(1,716)	–	(2,031)
Exchange adjustments	–	–	1	9	86	–	96
As at 31 December 2016	38,619	13,199	74,255	9,022	5,843	–	140,938
CARRYING VALUES:							
As at 31 December 2016	131,058	5,137	54,574	1,924	2,314	4,883	199,890
As at 31 December 2015	139,702	5,627	63,668	2,881	1,264	–	213,142

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment except for construction in progress are depreciated on a straight-line basis according to the following estimated useful lives and after taking into account their estimated residual values, as follows:

Buildings held for own uses	20 years
Leasehold improvements	5 years
Machinery	2 – 10 years
Office equipment	3 – 5 years
Motor vehicles	3 – 5 years

As at 31 December 2016, certain Group's buildings and machinery with an aggregate carrying amounts of approximately RMB92,949,000 (2015: RMB100,065,000) were pledged to secure the bank loans granted to the Group (note 34).

18. GOODWILL

	RMB'000
COST	
Arising on acquisition of subsidiaries (note 30), at 31 December 2015 and at 31 December 2016	1,008
IMPAIRMENT	
At 31 December 2015	–
Recognised during the year	1,008
At 31 December 2016	1,008
CARRYING VALUES	
At 31 December 2016	–
At 31 December 2015	1,008

For the purposes of impairment test, goodwill with indefinite useful lives has been allocated to individual cash-generating unit, being the subsidiary of Win Glory International Manufacturing Company Limited ("Win Glory").

The Group conducted an impairment review on goodwill attributable to the respective cash-generating unit at the end of the reporting period by reference to the estimated recoverable amounts. The recoverable amount of Win Glory has been determined based on a value-in-use calculation.

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For the year ended 31 December 2016

18. GOODWILL (CONTINUED)

The value-in-use is calculated based on discounted cash flow projection, which is prepared on the basis of financial budget approved by management of Win Glory covering a 5-year period. The growth rate for budget beyond 5-year period is 3% (2015: 0%). The growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Pre-tax discount rate of 18% (2015: 6%) per annum, which represents the risk involved in the business, was used in the calculation of value-in-use of this cash generating unit. Other key assumptions for the value-in-use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. At 31 December 2016, the directors of the Company assessed the recoverable amount, with reference to the valuation report prepared by APAC Asset Valuation and Consulting Limited, an independent qualified valuer not connected to the Group. Due to loss-making position of business, the directors of the Company considered that the entire amount of goodwill attributable to approximately RMB1,008,000 was irrecoverable. As such, an impairment loss on goodwill of approximately RMB1,008,000 (2015: nil) has been recognised during the year ended 31 December 2016.

19. PREPAID LEASE PAYMENTS

	2016 **RMB'000**	2015 RMB'000
Analysed for reporting purposes as:		
Non-current asset	**11,532**	11,830
Current asset	**297**	297
	11,829	12,127

As at 31 December 2016, the Group's prepaid lease payments with an aggregate carrying amount of approximately RMB11,829,000 (2015: RMB12,127,000) were pledged to secure the bank loans granted to the Group (note 34).

20. DEFERRED TAXATION

The following is the analysis of the deferred tax asset (liabilities), after set off certain deferred tax assets against deferred tax liabilities of the same taxable entity:

	2016 **RMB'000**	2015 RMB'000
For financial reporting purpose:		
Deferred tax assets	**502**	444
Deferred tax liabilities	**(609)**	(572)
	(107)	(128)

20. DEFERRED TAXATION (CONTINUED)

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Unrealised profit on inventories	Withholding tax on undistributed profit of subsidiaries in the PRC	Tax losses	Accelerated tax depreciation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	81	–	441	(95)	427
Charged to profit or loss for the year	(1)	(572)	–	–	(573)
Exchange difference	–	–	19	(1)	18
As at 31 December 2015 and at 1 January 2016	80	(572)	460	(96)	(128)
Credited (charged) to profit or loss for the year	28	(37)	–	(9)	(18)
Exchange difference	–	–	39	–	39
As at 31 December 2016	108	(609)	499	(105)	(107)

As at 31 December 2016, the Group has unused PRC and Hong Kong tax losses of approximately RMB54,721,000 (2015: RMB53,128,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of Hong Kong tax losses approximately RMB3,022,000 (2015: RMB2,790,000) of such losses as at 31 December 2016. No deferred tax asset has been recognised in respect of the remaining Hong Kong tax losses of approximately RMB3,626,000 (2015: RMB2,898,000) and PRC tax losses of approximately RMB48,073,000 (2015: RMB47,440,000) due to unpredictability of future profit streams. All the unrecognised PRC tax losses as at 31 December 2016 will expire in 2016 to 2020. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB1,532,000 (2015: RMB1,551,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible differences can be utilised.

No deferred tax has been provided in the consolidated financial statements for the year ended 31 December 2016, in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB219,430,000 (2015: RMB236,985,000) as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2016

21. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**15,448**	28,929
Work-in-progress	**20,539**	21,996
Finished goods	**8,495**	7,469
	44,482	58,394

During the year, inventories of approximately RMB306,000 (2015: RMB119,000) which was fully impaired in prior years were sold at a consideration above RMB306,000 (2015: RMB119,000). As a result, reversal of impairment on inventories of approximately RMB306,000 (2015: RMB119,000) was recognised.

22. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables	**48,345**	82,360
Less: allowance for doubtful debts	**(39)**	(39)
	48,306	82,321

There is no movement in the allowance for impairment of trade and bills receivables for the years ended 31 December 2016 and 2015.

The Group allows an average credit period of 30 to 90 days to its trade customers. As at 31 December 2015, the Group have bills receivables of RMB4,000,000 (2016: nil) were pledged to secure the bills payables granted to the Group (note 34).

An aged analysis of trade receivables net of allowance for impairment of trade receivables presented based on the invoice date at the end of each reporting period is as follows:

	2016 RMB'000	2015 RMB'000
0 – 30 days	**18,783**	31,192
31 – 60 days	**2,097**	17,720
61 – 90 days	**4,444**	9,565
Over 90 days	**22,982**	23,844
	48,306	82,321

22. TRADE AND BILLS RECEIVABLES (CONTINUED)

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of approximately RMB28,928,000 (2015: RMB21,430,000) which are past due as at the reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and these balances are still considered recoverable.

The aging of trade receivables based on payment due date is as follows:

	Total	Neither past due nor impaired	Past due but not impaired Less than 30 days	31 – 120 days	Over 120 days
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016	48,306	19,378	1,332	15,497	12,099
31 December 2015	82,321	60,891	8,694	7,628	5,108

The Group's trade receivables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

	2016	2015
	RMB'000	RMB'000
USD	**2,849**	2,815

23. PREPAYMENTS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments	**3,129**	3,154
Advance to suppliers	**4,235**	4,903
Other receivables	**5,646**	16,766
	13,010	24,823

As at 31 December 2015, included in other receivables, there is an advance of RMB5,000,000 which is unsecured, interest bearing at 5.1% per annum and guaranteed by two independent third parties and relevant interest receivable of approximately RMB153,000 on the advance. The principal and the accumulated interests were fully repaid on 31 January 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. PREPAYMENTS AND OTHER RECEIVABLES (CONTINUED)

The Group has individually assessed all other receivables and no impairment loss was recognised during the years ended 31 December 2016 and 2015. All other receivables were neither past due nor impaired.

The Group's other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2016	2015
	RMB'000	RMB'000
HKD	**281**	156
USD	**304**	303

24. RESTRICTED BANK DEPOSITS/CASH AND BANK BALANCES

Restricted bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to approximately RMB3,225,000 (2015: RMB15,984,000) have been pledged to secure the short-term bills payables and are therefore classified as current assets. During the year ended 31 December 2016, the balances carried interest at average market rates from 1.10% to 1.37% (2015: 1.10% to 3.35%) per annum and will be released upon the completion of bills payable transactions. The carrying amounts of the Group's restricted bank deposits are denominated in RMB.

Bank balances carried interest at average market rates from 0.001% to 0.3% (2015: 0.001% to 0.35%) per annum.

The Group's cash and bank balances that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2016	2015
	RMB'000	RMB'000
USD	**10,058**	689
HKD	**5,622**	14,442
RMB	**73**	3,416
Euro	**20**	43
Pound sterling	**5**	6
	15,778	18,596

25. TRADE AND BILLS PAYABLES

The aged analysis of trade and bills payables is presented based on the invoice date at the end of the reporting period and as follows:

	2016 RMB'000	2015 RMB'000
0 – 30 days	**20,414**	37,440
31 – 90 days	**9,396**	19,921
91 – 180 days	**1,044**	4,242
Over 180 days	**1,060**	574
	31,914	62,177

The average credit period on purchase of goods is from 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The bills payables are secured by restricted bank deposits and bills receivables. Details are disclosed in note 34.

26. ACCRUALS AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Payroll and welfare payables	**11,143**	12,273
Other tax payables	**3,066**	852
Other payables	**2,844**	4,319
	17,053	17,444

Included in the accruals and other payables of approximately RMB698,000 (2015: nil) represents the amounts due to directors as at 31 December 2016. The amounts are unsecured, non-interest bearing and repayable on demand.

The Group's accruals and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2016 RMB'000	2015 RMB'000
HKD	**1,552**	344

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27. INTEREST-BEARING BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank borrowings – secured	**88,000**	97,412

Based on the scheduled payment dates set out in the loan agreements, all outstanding bank borrowings are within one year and repayable on demand.

As at 31 December 2016, secured bank loans with carrying amount of approximately RMB88,000,000 (2015: RMB97,412,000) were secured by prepaid lease payments, buildings and machinery of the Group. Details are disclosed in note 34.

The effective interest rate per annum at the end of the reporting periods ranged from:

	2016		2015	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Variable rate borrowings	**4.57% – 6.18%**	**48,000**	4.57% – 6.18%	57,412
Fixed rate borrowings	**5.00% – 5.05%**	**40,000**	4.91%	40,000
		88,000		97,412

As at 31 December 2016 and 2015, the carrying amounts of the Group's borrowings are denominated in RMB.

28. CONVERTIBLE BONDS

On 20 May 2015, the Company issued 6% convertible bonds with an aggregate principal amount of HK$50,000,000 (equivalent to approximately RMB39,683,000) (the "Convertible Bonds"). The Convertible Bonds are denominated in HK$ and entitle the holders to convert them into ordinary shares of the Company at any time between 1 June 2015 and up to the 14th day immediately preceding the maturity date which is 19 May 2016 at an initial conversion price of HK$1.386, subject to adjustments, per convertible bond. If the Convertible Bonds have not been converted, it will be redeemed on maturity date at par. The Convertible Bonds contain two components, liability and derivative components. The effective interest rate of the liability component is 7% per annum.

The movement of the liability and derivative components of the Convertible Bonds are set out below:

	Liability Component	**Derivative Component**	**Total**
	RMB'000	RMB'000	RMB'000
Principal amount at date of issue	39,683	–	39,683
Loss arising on changes in fair value on initial recognition	(371)	14,527	14,156
Fair value at date of issue	39,312	14,527	53,839
Transaction costs	(2,607)	–	(2,607)
Effective interest expenses	294	–	294
Interest payable	(171)	–	(171)
Conversion of convertible bonds	(32,614)	(11,554)	(44,168)
Gain arising on changes in fair value	–	(2,936)	(2,936)
Exchange realignment	174	50	224
At 31 December 2015	4,388	87	4,475
Effective interest expenses	119	–	119
Repayment of Convertible Bonds	(4,835)	–	(4,835)
Loss on redemption of Convertible Bonds (included in finance costs)	330	(87)	243
Exchange realignment	(2)	–	(2)
At 31 December 2016	–	–	–

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For the year ended 31 December 2016

29. SHARE CAPITAL

	Number of shares	Amount RMB'000
Ordinary share without par value		
Authorised:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,000,000,000	N/A

	Number of shares	Amount RMB'000
Issued and fully paid:		
At 1 January 2015	380,000,000	46,938
Issue of shares upon conversion of Convertible Bonds	31,947,330	44,168
At 31 December 2015, 1 January 2016 and 31 December 2016	411,947,330	91,106

During the year ended 31 December 2015, Convertible Bonds with an aggregate principal amount of HK$44,278,997 (equivalent to approximately RMB35,142,000) were converted into 31,947,330 ordinary shares with no par value at a conversion price of HK$1.386 per share. No such conversion of shares occurred during the year ended 31 December 2016.

All the ordinary shares issued during the year ended 31 December 2015 rank pari passu with the then existing shares in all respects.

30. ACQUISITION OF A SUBSIDIARY

On 1 September 2015, the Group acquired 100% of the issued share capital of Win Glory for a consideration of USD200,000 (approximately RMB1,242,000). This acquisition has been accounted for using the acquisition method. The amount of goodwill arising as a result of the acquisition was approximately RMB1,008,000. Win Glory is engaged in the manufacture of garments. Win Glory was acquired so as to continue the expansion of the Group's garment operations.

Consideration transferred

	RMB'000
Cash	1,242

Acquisition-related costs amounting to approximately Burmese Kyat ("MMK") 14,000,000 (equivalent to approximately RMB70,000) had been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	234

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	1,242
Less: net assets acquired	(234)
Goodwill arising on acquisition	1,008

Goodwill arose in the acquisition of Win Glory because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Win Glory. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

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For the year ended 31 December 2016

30. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Net cash outflow on acquisition of Win Glory:

	RMB'000
Cash consideration paid	1,242
Less: cash and cash equivalent balances acquired	–
	1,242

Included in the loss for the year ended 31 December 2015 is loss of approximately RMB1,094,000 attributable to the additional business generated by Win Glory. Revenue for the year ended 31 December 2015 includes approximately RMB520,000 generated from Win Glory.

31. SHARE-BASED PAYMENT

On 19 August 2011, the Company has adopted a share option scheme (the "Scheme") for the primary purpose of providing incentives to directors of the Company, eligible employees and other selected participants and will expire on 18 August 2021. Under the Scheme, the directors of the Company may, at their discretion, invite i) employees of the Company and its subsidiaries; ii) non-executive directors of the Company and its subsidiaries; iii) suppliers of goods or services to the Company and its subsidiaries; iv) customers of the Company and its subsidiaries; v) any person or entity that provides research, development or other technological support to the Company and its subsidiaries; vi) any shareholder of the Company and its subsidiaries; vii) adviser or consultant to any area of business or business development of the Company and its subsidiaries; and viii) other group or classes of participants who have contributed or may contribute by way of joint ventures, business alliance or other business arrangement to the growth of the Company and its subsidiaries to take up options to subscribe for shares. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued shares on the day on which the trading of the shares of the Company commence on the Stock Exchange such limit may be refreshed subject to the shareholders' approval.

No share option was granted under the Scheme for the years ended 31 December 2016 and 2015.

32. OPERATING LEASES ARRANGEMENTS

The Group as leasee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 RMB'000	2015 RMB'000
Within one year	**2,202**	460
In the second to fifth year, inclusive	**2,151**	882
	4,353	1,342

Operating lease payments represent rentals payable by the Group for certain of its office properties and factories. Leases are negotiated and rentals are fixed for one to five years.

33. CAPITAL COMMITMENTS

	2016 RMB'000	2015 RMB'000
Amount contracted for but not provided for in the consolidated financial statements in respect of acquisition of property, plant and equipment	**5,762**	148

34. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure bills payables (note 25) to suppliers and bank borrowings (note 27) of the Group at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Prepaid lease payments	**11,829**	12,127
Buildings	**84,484**	89,982
Machinery	**8,465**	10,083
Restricted bank deposits	**3,225**	15,984
Bills receivables	**–**	4,000
	108,003	132,176

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35. RETIREMENT BENEFIT SCHEMES

The employees employed in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiary is required to contribute a certain percentage of their payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the schemes are held separately from those of the Group, in independently administered funds. Monthly contributions made by the subsidiaries are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate. The employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 and they can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

The total cost charged to profit or loss of approximately RMB9,866,000 (2015: RMB8,402,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

36. MATERIAL RELATED PARTY TRANSACTIONS

(i) Compensation of key management personnel

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

	2016	2015
	RMB'000	RMB'000
Short-term benefits	**6,676**	9,131
Post-employment benefits	**90**	71
	6,766	9,202

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

37. PRINCIPAL SUBSIDIARIES

Particulars of the subsidiaries as at 31 December 2016 and 2015 are as follows:

Name	Place of incorporation/ registration and operations	Class of shares held	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Proportion of voting power held by the Company		Principal activities
				Indirectly 2016	Indirectly 2015	2016	2015	
Grand Concord Holdings Group Limited	BVI	Ordinary	USD1	100%	–	100%	–	Investment holding
Grand Concord Trading Limited 廣豪貿易有限公司	Hong Kong	Ordinary	HKD2	100%	100%	100%	100%	Investment holding
Grand Concord Garment (Hong Kong) Limited 廣豪服飾（香港）有限公司	Hong Kong	Ordinary	HKD1	100%	100%	100%	100%	Trading of garments
Zhucheng Eternal Knitting Co., Limited 諸城裕泰針織有限公司 (notes (a) and (b))	The PRC	Ordinary	USD2,300,000	100%	100%	100%	100%	Manufacture of innerwear
Zhucheng Yumin Knitting Co., Limited 諸城裕民針織有限公司 (notes (a) and (b))	The PRC	Ordinary	USD5,600,000	100%	100%	100%	100%	Manufacture of fabrics, provision of fabric weaving knitting, printing and dyeing services
Shandong Shundu International Trading Limited 山東順都國際貿易有限公司 (previously known as 山東廣豪服飾有限公司) (notes (a) and (b))	The PRC	Ordinary	USD1,500,000	100%	100%	100%	100%	Trading of garments (2015: manufacture of innerwear and garments)

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For the year ended 31 December 2016

37. PRINCIPAL SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Class of shares held	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Proportion of voting power held by the Company		Principal activities
				Indirectly 2016	Indirectly 2015	2016	2015	
Zhucheng Yuan Knitting Co., Limited 諸城裕安針織有限公司 (notes (a) and (b))	The PRC	Ordinary	RMB5,000,000	100%	100%	100%	100%	Manufacture of innerwear and garments
Win Glory (note 30)	Myanmar	Ordinary	MMK63,750,000	100%	100%	100%	100%	Manufacturing of garments

Notes:

(a) The entity is wholly foreign owned enterprise established in the PRC.

(b) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		**23**	143
Unlisted investments in subsidiaries		**28,071**	28,071
		28,094	28,214
Current assets			
Prepayments and other receivables		**450**	163
Amounts due from subsidiaries	(a)	**68,045**	66,176
Bank balances and cash		**2,270**	14,318
		70,765	80,657
Current liabilities			
Accruals and other payables		**1,527**	320
Amounts due to subsidiaries	(a)	**–**	2,159
Derivatives embedded in convertible bonds		**–**	87
Convertible bonds		**–**	4,388
		1,527	6,954
Net current assets		**69,238**	73,703
Total assets less current liabilities		**97,332**	101,917
Capital and reserves			
Share capital (note 29)		**91,106**	91,106
Reserves	(b)	**6,226**	10,811
Total equity		**97,332**	101,917

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Notes:

(a) Amounts due from/to subsidiaries

The amounts are unsecured, non-interest bearing and repayable on demand.

(b) Movement in the Company's reserves

	Other reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2015	27,988	7,105	35,093
Loss and total comprehensive expense for the year	–	(18,153)	(18,153)
Dividend recognised as distribution	–	(6,129)	(6,129)
At 31 December 2015 and 1 January 2016	27,988	(17,177)	10,811
Loss and total comprehensive expense for the year	–	(4,585)	(4,585)
At 31 December 2016	27,988	(21,762)	6,226

Note: Other reserve represented the difference between the nominal value of the shares of the Company issued and net asset values of Grand Concord Trading Limited upon group reorganisation undertook in 2011.