

# CHINA WEAVING MATERIALS HOLDINGS LIMITED

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(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

INTERIM REPORT 2017

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# Corporate Information

## BOARD OF DIRECTORS (THE "BOARD")

### Executive Directors

Mr. Zheng Hong (*Chairman*)

Mr. Zheng Yongxiang

### Non-Executive Director

Mr. Sze Irons BBS, JP

### Independent Non-Executive Directors

Mr. Ng Wing Ka JP

Ms. Zhang Baixiang

Mr. Xu Yiliang

## BOARD COMMITTEES

### Audit Committee

Ms. Zhang Baixiang (*Chairman*)

Mr. Ng Wing Ka JP

Mr. Xu Yiliang

### Remuneration Committee

Mr. Ng Wing Ka JP (*Chairman*)

Ms. Zhang Baixiang

Mr. Zheng Hong

Mr. Xu Yiliang

### Nomination Committee

Mr. Zheng Hong (*Chairman*)

Mr. Ng Wing Ka JP

Ms. Zhang Baixiang

Mr. Xu Yiliang

## COMPANY SECRETARY

Mr. Cheung Chi Fai Frank

## AUTHORISED REPRESENTATIVES

Mr. Zheng Hong

Mr. Cheung Chi Fai Frank

## REGISTERED OFFICE

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

## HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Fengtian Development Zone  
Fengxin County  
Jiangxi Province, PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

# Corporate Information

## LEGAL ADVISERS

### **As to Hong Kong law:**

Luk & Partners  
In Association with  
Morgan, Lewis and Bockius

### **As to PRC law:**

Jiangxi Zhiquan Law Offices

## AUDITOR

RSM Hong Kong  
*Certified Public Accountants*

## INVESTORS RELATIONSHIP CONSULTANT

Anli Financial Communications Limited

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

## COMPANY WEBSITE

[www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com)

## STOCK CODE

3778



# Management Discussion and Analysis

## MARKET OVERVIEW

In the first half of 2017, the international economic conditions remained challenging. The gross domestic product (“GDP”) growth rate of the United States (the “US”) was less than 2% for the first half of 2017. The economic outlook for the rest of the developed countries remains uncertain. Despite some European countries witnessed some signs of economic recovery, the GDP growth rate of the 28 countries in the European Union was less than 1% in the first half of 2017. Despite sluggish overseas demand, domestic over capacity and the adjustments resulting from the transition of the economy, the growth of the economy of the PRC remains stable. The GDP growth rate of the PRC slightly increased from a rate of 6.7% for the full year of 2016 to 6.9% in the first half of 2017.

After the slump in the international oil prices to below US\$30 per barrel in February 2016, oil prices have rebounded since the second quarter of 2016 and have been trading at above US\$50 per barrel for most of the time in the first half of 2017. Stabilisation in prices of oil related raw materials translated into more stable market conditions for polyester yarns products.

Domestic cotton prices in the PRC have shown an upward trend since the second half of 2016. In the first half of 2017, domestic cotton prices have stabilised and have been trading at over RMB15,500 per tonne for most of the time in the first half of 2017 without showing very large fluctuations. However, the price gap between imported cotton and domestic cotton has been hovering at around RMB2,000 per tonne and this continues to create a competitive disadvantage for the domestic cotton yarn manufacturers with few or no import quotas.

Despite a relatively more stable environment in terms of the prices of the raw materials, the overall market conditions for the textile industry remains difficult due to a number of unfavourable factors including: poor overseas demand, weakened domestic demand resulting from a slow down domestic economy in the PRC, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia.

## BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the “Company”) together with its subsidiaries, (the “Group”) decreased by 4.2% from approximately 56,934 tonnes for the six months ended 30 June 2016 to approximately 54,516 tonnes for the six months ended 30 June 2017. The production volume of yarn products of the Group increased by 5.0% from approximately 55,477 tonnes for the six months ended 30 June 2016 to approximately 58,248 tonnes for the six months ended 30 June 2017. The revenue of the yarn products of the Group increased by 10.3% to approximately RMB693.7 million for the six months ended 30 June 2017 as compared to RMB629.1 million for the six months ended 30 June 2016. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2017 were approximately RMB62.5 million and approximately RMB22.3 million, respectively.

In the first half of 2017, the Group has continued to rationalise its production capacities and further diversified its product portfolio. The Group is offering around 100 types of yarn products with different material mix and counts to satisfy the needs of different customers.

The Group’s subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited (“Xinyuan”) has commenced trial production in November 2016. Xinyuan is engaged in the manufacture and trading of polyester staple fibres (“PSF”) which are one of the basic raw materials of the Group for the production of polyester yarns. The sales and production volume of PSF for the six months ended 30 June 2017 was approximately 4,185 tonnes and 8,380 tonnes respectively.

# Management Discussion and Analysis

In August 2016, the Company issued redeemable fixed coupon notes with a principal amount of HK\$50,000,000 (the “Notes”) and a redeemable fixed coupon convertible bond in the principal amount of HK\$110,000,000 (the “Bond”) to CCB International Overseas Limited. The Company has early redeemed the Notes in full in March 2017. The Bond remained outstanding as at 30 June 2017.

## FINANCIAL REVIEW

### Revenue

Revenue of the Group for the six months ended 30 June 2017 was approximately RMB706.4 million, representing an increase of approximately RMB75.1 million, or 11.9%, as compared to the corresponding period last year. The analysis of the sales of the Group’s products is as below:

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	RMB’000		RMB’000	
Polyester yarns	209,190	29.6%	194,938	30.9%
Polyester-cotton and viscose-cotton blended yarns	291,985	41.4%	250,389	39.7%
Cotton yarns	23,411	3.3%	49,995	7.9%
Viscose and stretchable core viscose yarns	58,050	8.2%	34,516	5.4%
Grey and deep grey mélangé yarns	111,017	15.7%	99,238	15.7%
Polyester staple fibres	7,469	1.1%	–	–
Others	5,272	0.7%	2,220	0.4%
	<b>706,394</b>	<b>100.0%</b>	631,296	100.0%

The increase in the revenue of the Group for the six months ended 30 June 2017 was mainly attributable to the increase in the average selling price of yarn products of the Group of 15.2% from approximately RMB11,049 per tonne for the six months ended 30 June 2016 to approximately RMB12,724 per tonne for the six months ended 30 June 2017, despite sales volume decreased by approximately 4.2% for the six months ended 30 June 2017 as compared with the corresponding period in 2016.

### Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB53.6 million for the six months ended 30 June 2016 to approximately RMB62.5 million for the six months ended 30 June 2017. The gross profit margin of the Group slightly increased from approximately 8.5% for the six months ended 30 June 2016 to approximately 8.8% for the six months ended 30 June 2017. The increase in gross margin was mainly due to increase in sales. The increase in sales was mainly due to the substantial increase in the average selling prices of the yarn products of the Group. The increase in the selling prices of the yarn products of the Group were mainly due to the higher prices of raw material in the first half of 2017 as compared with that of the corresponding period in 2016. The selling prices of yarn products generally have a positive correlation with that of raw materials.

### Other Income

Other income of the Group increased from approximately RMB5.6 million for the six months ended 30 June 2016 to approximately RMB11.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB5.8 million or 103.6%. The increase in other income was mainly due to increase in income from scrap sales and government grants.

# Management Discussion and Analysis

## Other Gains and Losses

Other gains for the six months ended 30 June 2017 was approximately RMB16.6 million while other gains for the six months ended 30 June 2016 was approximately RMB0.5 million. Other gains for the six months ended 30 June 2017 were mainly due to fair value gain on the derivative component of the Bond of approximately RMB14.5 million and net foreign exchange gain of RMB3.6 million. Those gains were partly offset by the unrealised loss on currency forward contracts of RMB1.3 million.

## Distribution and Selling Expenses

Distribution and selling expenses of the Group remained about approximately the same at approximately RMB11.7 million for the six months ended 30 June 2017 as compared to approximately RMB11.4 million for the six months ended 30 June 2016. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.7% for the six months ended 30 June 2017 (six months ended 30 June 2016: 1.8%).

## Administrative Expenses

Administrative expenses of the Group increased from approximately RMB21.8 million for the six months ended 30 June 2016 to approximately RMB24.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB2.6 million or 11.9%. The increase in administrative expenses was mainly due to administrative expenses attributable to Xinyuan which commenced production in November 2016. Administrative expenses as a percentage of revenue of the Group was approximately 3.5% for the six months ended 30 June 2017 (six months ended 30 June 2016: 3.4%).

## Finance Costs

Finance costs of the Group increased from approximately RMB23.3 million for the six months ended 30 June 2016 to approximately RMB29.5 million for the six months ended 30 June 2017, representing an increase of 26.6% or approximately RMB6.2 million. The increase in the Group's finance costs was mainly due to increase in interest on the Bond and the Notes, partially offset by decrease in interest on bond payables.

## Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2017 was approximately 18.9%, as compared to 63.6% for the corresponding period in 2016. The decrease in effective income tax rate was mainly due to the reversal of recognised deferred tax assets in respect of the tax loss carrying forward for the six months ended 30 June 2016 and the absence of such reversal for the six months ended 30 June 2017.

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

Profit attributable to owners of the Company for the six months ended 30 June 2017 was approximately RMB22.3 million, representing an increase of approximately RMB20.8 million, or 14 times, as compared to that for the six months ended 30 June 2016. The net profit margin attributable to owners of the Company for the six months ended 30 June 2017 was approximately 3.2% representing an increase of 3 percentage points as compared with 0.2% for the six months ended 30 June 2016. The increases in the Group's net profit were mainly due to the increase in gross profit, other income and other gains, partially offset by increase in administrative expenses and finance costs.

## Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2017 was approximately RMB1.78 cents, representing an increase of approximately 14 times as compared with approximately RMB0.12 cents for the six months ended 30 June 2016. The increase in basic earnings per share of the Company was due to the increase in net profit for the six months ended 30 June 2017.

# Management Discussion and Analysis

## Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC and Hong Kong. During the six months ended 30 June 2017, net cash used in operating activities of the Group amounted to approximately RMB52.2 million (six months ended 30 June 2016: net cash inflow, RMB45.6 million). The Group had cash and bank balances of approximately RMB44.8 million (31 December 2016: RMB93.4 million), pledged bank deposits of approximately RMB52.4 million (31 December 2016: RMB61.6 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2016: RMB0.5 million) at 30 June 2017. The Group's cash and bank balances were mainly held in Hong Kong Dollars and RMB.

## Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and Hong Kong Dollars. At 30 June 2017, the Group's interest-bearing borrowings amounted to approximately RMB569.5 million (31 December 2016: RMB638.0 million), RMB429.4 million (75.4%) of which (31 December 2016: RMB504.7 million (79.1%)) was repayable within one year or on demand. The Group's banking facilities were secured by its land use rights, properties, plant and equipment, pledged bank deposits and bills receivable with a carrying value of approximately RMB766.2 million in aggregate as at 30 June 2017 (31 December 2016: RMB763.4 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities. The Bond were secured by 514,305,000 ordinary shares of the Company held by Popular Trend Holdings Limited ("**Popular Trend**"), a company wholly owned by an executive director of the Company and a controlling shareholder of the Company, and the cash maintained by Popular Trend under a collateral account, and is guaranteed by an executive director of the Company.

## Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, notes payable, liability component of convertible bond, finance lease payables, bills payable and consideration payables to total assets, was approximately 41.6% at 30 June 2017 (31 December 2016: 47.9%). Net current liabilities and net assets at 30 June 2017 was approximately RMB493.2 million (31 December 2016: RMB492.0 million) and approximately RMB513.7 million (31 December 2016: RMB493.5 million), respectively.

## Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, restricted bank deposit, trade and other receivables, bills payable, convertible bond, bank borrowings, finance lease payable and other payables, which mainly expose the Group to risk in Hong Kong Dollars and US Dollars. The Group tries to mitigate its exposure to the decrease in value of RMB by early redemption in full in March 2017 the Notes of principal amount of HK\$50,000,000 issued by the Company and also entered into currency forward contracts during the six months ended 30 June 2017. An unrealised loss of approximately RMB1.3 million was incurred on currency forward contracts during the six months ended 30 June 2017.

## Contingent Liabilities

At 30 June 2017, the Group did not have any contingent liabilities.

## Employees, Remuneration and Share Option Scheme

At 30 June 2017, the Group had a total of 3,291 employees (31 December 2016: 3,298). Remuneration for employees, including the directors of the Company (the "**Directors**"), is determined in accordance with performance, professional experiences and the prevailing market practices. The Group's management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company had adopted a share option scheme on 3 December 2011, under which the Company may grant options to eligible persons including Directors and employees. No share option has been granted pursuant to the scheme since its adoption.



# Management Discussion and Analysis

## **Significant Investments and Material Acquisitions and Disposal of Subsidiaries**

During the six months ended 30 June 2017, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

## **PROSPECTS**

Despite a relatively more stable environment in terms of the prices of the raw materials, the overall market conditions for the textile industry remains difficult due to a number of unfavourable factors including: poor overseas demand, weakened domestic demand resulting from a slow down domestic economy in the PRC, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia.

In the first half of 2017, the Group has continued to rationalise its production capacities and further diversified its product portfolio. The Group is offering around 100 types of yarn products with different material mix and counts to satisfy the needs of different customers. The Group has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of PSF. Xinyuan has commenced trial production in November 2016.

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

# Corporate Governance and Other Information

## INTERIM DIVIDEND

The Board does not recommend any dividend in respect of the six months ended 30 June 2017.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company ("**Shares**") during the six months ended 30 June 2017.

## EARLY REDEMPTION OF THE NOTES

On 9 August 2016, the Company issued the Notes and the Bond which carries conversion rights to convert up to 227,000,000 conversion shares at the conversion price (being the initial price of HK\$0.45 per conversion share, subject to adjustment) to CCB International Overseas Limited. Popular Trend, a controlling shareholder of the Company (the "**Mortgagor**") has entered into a share mortgage with CCB International Overseas Limited in respect of a mortgage over 514,305,000 ordinary shares of HK\$0.10 in the capital of the Company ("**Mortgaged Shares**") held by the Mortgagor as continuing security for the Notes and the Bond. As at the date of this report, the Mortgaged Shares represent approximately 41.07% of the entire issued share capital of the Company. Details of the Notes and the Bond were set out in the Company's announcements dated 11 July 2016 and 9 August 2016.

On 31 March, 2017, the Company redeemed in full of all of the outstanding principal of the Notes of HK\$50,000,000. Details of the redemption were set out in the Company's announcement dated 31 March 2017.

During the year ended 31 December 2016 and the six months ended 30 June 2017, there was no conversion of any amount of the Bond into Shares.

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

As at 30 June 2017, the interest or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") under the provisions of Divisions 7 and 8 of Part XV of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), are set out below:

Name of Director	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Zheng Hong <sup>(1)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
Mr. Sze Irons, BBS, JP <sup>(2)</sup>	Interest of a controlled corporation	Long position	135,135,000 Shares	10.79%
Mr. Zheng Yongxiang	Beneficial owner	Long position	23,509,200 Shares	1.88%

# Corporate Governance and Other Information

Notes:

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

Save as disclosed above, as at 30 June 2017, none of the Directors (including their spouse and children under 18 years of age) had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

Pursuant to a resolution of the shareholders of the Company (the "**Shareholders**") passed on 3 December 2011, the Company has adopted a share option scheme (the "**Scheme**"). The purpose of the Scheme is to recognise and acknowledge the contributions the eligible participants had or may have made to the Group. The Scheme became effective on 22 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption of the Scheme. The remaining life of the Scheme is approximately 4.5 years as at 30 June 2017. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

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

- (i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

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

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

# Corporate Governance and Other Information

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

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

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

- i. the official closing price of the Shares as stated in the daily quotation sheets on the date of the offer of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- ii. the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- iii. the nominal value of a Share.

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

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until 22 December 2021.

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

## **ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE**

Save as disclosed in the section headed "Share Option Scheme" above, at no time during the six months ended 30 June 2017 were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.



# Corporate Governance and Other Information

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2017, so far as is known to any Director or chief executive of the Company, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Popular Trend <sup>(1)</sup>	Beneficial owner	Long position	514,305,000 Shares	41.07%
Flourish Talent <sup>(2)</sup>	Beneficial owner	Long position	135,135,000 Shares	10.79%
Da Yu Investments <sup>(3)</sup>	Beneficial owner	Long position	67,567,500 Shares	5.40%
Ms. Xie Meijing <sup>(3)</sup>	Interest of a controlled corporation	Long position	67,567,500 Shares	5.40%
CCB International Overseas Limited <sup>(4)</sup>	Security Interest	Long position	514,305,000 Shares	41.07%
CCB International (Holdings) Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB Financial Holdings Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB International Group Holdings Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
China Construction Bank Corporation <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
Central Huijin Investment Limited <sup>(4)</sup>	Interest of a controlled corporation	Long position	514,305,000 Shares	41.07%
CCB International Overseas Limited <sup>(5)</sup>	Beneficial owner	Long position	227,000,000 Shares	18.13%
CCB International (Holdings) Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB Financial Holdings Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
CCB International Group Holdings Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
China Construction Bank Corporation <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%
Central Huijin Investment Limited <sup>(5)</sup>	Interest of a controlled corporation	Long position	227,000,000 Shares	18.13%

# Corporate Governance and Other Information

## Notes:

1. Popular Trend is wholly-owned by Mr. Zheng Hong.
2. Flourish Talent is wholly-owned by Mr. Sze Irons, BBS, JP.
3. Da Yu Investments Limited (“**Da Yu Investments**”) is wholly-owned by Ms. Xie Meijing (“**Ms. Xie**”). For the purpose of Part XV of the SFO, Ms. Xie is deemed to be interested in the Shares held by Da Yu Investments.
4. For the purpose of Part XV of the SFO, Central Huijin Investment Limited (中央匯金投資責任有限公司) is deemed to be interested in the underlying shares in respect of the security interest in the Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:
  - 4.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment Limited.
  - 4.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.
  - 4.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.
  - 4.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.
  - 4.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.
  - 4.6 Popular Trend, a controlling shareholder of the Company, mortgaged 514,305,000 Shares to CCB International Overseas Limited on 9 August 2016 as security for the Bond issued by the Company on 9 August 2016.
5. For the purpose of Part XV of the SFO, Central Huijin Investment limited (中央匯金投資責任有限公司) is deemed to be interested in the underlying shares in respect of the right to acquire Shares held by CCB International Overseas Limited by virtue of its control over the following subsidiaries:
  - 5.1 China Construction Bank Corporation is a subsidiary of Central Huijin Investment limited.
  - 5.2 CCB International Group Holdings Limited is a wholly owned subsidiary of China Construction Bank Corporation.
  - 5.3 CCB Financial Holdings Limited is a wholly owned subsidiary of CCB International Group Holdings Limited.
  - 5.4 CCB International (Holdings) Limited is a wholly owned subsidiary of CCB Financial Holdings Limited.
  - 5.5 CCB International Overseas Limited is a wholly owned subsidiary of CCB International (Holdings) Limited.
  - 5.6 The Company issued the Bond to CCB International Overseas Limited which carries conversion rights to convert up to 227,000,000 conversion shares at the conversion price (being the initial price of HK\$0.45 per conversion share which is subject to adjustment) on 9 August 2016.

## CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2017, the Company had complied with the code provisions of the existing Corporate Governance Code (the “**CG Code**”) and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. In respect of code provision C.2.5 of the CG Code, the Company has not set up an Internal Audit (“**IA**”) function. The Company has considered the size and complexity of the operations of the Group and the potential cost involved in setting up an IA function, the Company considers the existing organisation structure and the close supervision of the executive management could provide sufficient internal control and risk management for the Group. The Audit Committee under the Board will review the effectiveness of the internal control and risk management of the Group. The Board will conduct an annual review for the need of an IA function on an annual basis.

# Corporate Governance and Other Information

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct governing the Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, each of them has complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2017.

## **AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL INFORMATION**

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2017.

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

For the six months ended 30 June 2017

	Note	Six months ended 30 June	
		2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
<b>Revenue</b>	7	<b>706,394</b>	631,296
Cost of sales		<b>(643,918)</b>	(577,741)
<b>Gross profit</b>		<b>62,476</b>	53,555
Other income	8	<b>11,428</b>	5,624
Other gains and losses	9	<b>16,618</b>	450
Distribution and selling expenses		<b>(11,680)</b>	(11,394)
Administrative expenses		<b>(24,426)</b>	(21,770)
Finance costs	10	<b>(29,531)</b>	(23,272)
<b>Profit before tax</b>		<b>24,885</b>	3,193
Income tax expense	11	<b>(4,704)</b>	(2,031)
<b>Profit and total comprehensive income for the period</b>	12	<b>20,181</b>	1,162
<b>Profit and total comprehensive income for the period attributable to:</b>			
Owners of the Company		<b>22,319</b>	1,486
Non-controlling interests		<b>(2,138)</b>	(324)
		<b>20,181</b>	1,162
<b>Earnings per share</b>	14		
Basic		<b>RMB1.78 cents</b>	RMB0.12 cents
Diluted		<b>RMB1.14 cents</b>	RMB0.12 cents



# Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Note	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	15	1,092,545	1,106,576
Prepaid lease payments		43,802	44,347
Intangible asset		42	67
Deposits on acquisition of property, plant and equipment		492	53
Goodwill		34,829	34,829
Deferred tax assets		2,416	2,465
		<b>1,174,126</b>	1,188,337
<b>Current assets</b>			
Inventories	16	260,993	137,153
Trade and other receivables	17	28,387	53,597
Bills receivable	18	18,840	12,614
Prepaid lease payments		1,090	1,090
Pledged bank deposits		52,438	61,571
Restricted bank deposit		500	500
Cash and bank balances		44,796	93,443
		<b>407,044</b>	359,968
<b>Current liabilities</b>			
Trade and other payables	19	390,439	233,792
Bills payable	20	34,760	52,148
Deferred income		227	227
Finance lease payable		3,488	4,125
Financial liabilities at fair value through profit or loss		1,326	–
Bank borrowings	21	424,827	498,729
Notes payable	22	–	705
Liability component of convertible bond	23	1,087	1,128
Derivative component of convertible bond	23	36,361	50,853
Current tax liabilities		7,717	10,276
		<b>900,232</b>	851,983
<b>Net current liabilities</b>		<b>(493,188)</b>	(492,015)
<b>Total assets less current liabilities</b>		<b>680,938</b>	696,322

# Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Note	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
<b>Non-current liabilities</b>			
Consideration payables	24	–	42,963
Deferred income		<b>7,823</b>	7,937
Bank borrowings	21	<b>65,840</b>	20,260
Notes payable	22	–	44,729
Liability component of convertible bond	23	<b>74,266</b>	68,289
Deferred tax liabilities		<b>19,284</b>	18,600
		<b>167,213</b>	202,778
<b>NET ASSETS</b>			
		<b>513,725</b>	493,544
<b>Capital and reserves</b>			
Share capital	25	<b>101,989</b>	101,989
Reserves		<b>381,887</b>	359,568
<b>Equity attributable to owners of the Company</b>			
Non-controlling interests		<b>29,849</b>	31,987
<b>TOTAL EQUITY</b>			
		<b>513,725</b>	493,544

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Unaudited								
	Attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	PRC statutory reserves	Special reserve	Retained profits				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	101,989	73,903	65,058	148,739	57,022	446,711	16,884	463,595	
Profit/(Loss) and total comprehensive income for the period	-	-	-	-	1,486	1,486	(324)	1,162	
Capital contributions from non-controlling interests	-	-	-	-	-	-	17,150	17,150	
<b>At 30 June 2016</b>	<b>101,989</b>	<b>73,903</b>	<b>65,058</b>	<b>148,739</b>	<b>58,508</b>	<b>448,197</b>	<b>33,710</b>	<b>481,907</b>	
At 1 January 2017	101,989	73,903	78,049	148,739	58,877	461,557	31,987	493,544	
Profit/(Loss) and total comprehensive income for the period	-	-	-	-	22,319	22,319	(2,138)	20,181	
<b>At 30 June 2017</b>	<b>101,989</b>	<b>73,903</b>	<b>78,049</b>	<b>148,739</b>	<b>81,196</b>	<b>483,876</b>	<b>29,849</b>	<b>513,725</b>	

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
<b>NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES</b>	<b>(52,248)</b>	45,626
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Placement of pledged bank deposits	(22,431)	(19,899)
Withdrawal of pledged bank deposits	31,564	34,195
Interest received	361	499
Purchase of property, plant and equipment	(14,722)	(26,983)
Proceeds from disposals of property, plant and equipment	10	–
Increase in deposits on acquisition of property, plant and equipment	(439)	(1,339)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,657)</b>	(13,527)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital contributions from non-controlling interests	–	17,150
Loan raised from a related company	126,500	–
Repayment of loan from a related company	(49,500)	–
Loan raised from a third party	5,000	–
Proceeds from bank borrowings	247,600	232,100
Repayment of bank borrowings	(275,552)	(267,520)
Repayment of finance lease payable	(497)	(411)
Repayment of note instruments	(44,293)	–
Increase in restricted bank deposit	–	(10,038)
<b>NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>9,258</b>	(28,719)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(48,647)</b>	3,380
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>93,443</b>	41,182
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>44,796</b>	44,562
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	44,796	44,562



# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 1. GENERAL INFORMATION

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

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

This condensed consolidated financial information for the six months ended 30 June 2017 is presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

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

The Group continues to adopt the going concern basis in preparing its condensed consolidated financial information. At 30 June 2017, the Group had net current liabilities of approximately RMB493,188,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the condensed consolidated financial information has been prepared on a going concern basis as the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

- (a) The banking facilities from the Group’s bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:
  - (i) Up to the date of the condensed consolidated financial information was authorised for issue, the Group’s bankers agreed to renew bank borrowings amounting to approximately RMB406,100,000 currently included in current liabilities at 30 June 2017.
  - (ii) Undrawn banking facilities amounting to approximately RMB37,402,000.
  - (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB58,117,000.
  - (iv) Certain existing prepaid land lease and property, plant and equipment can be offered as security for further financing.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 2. BASIS OF PREPARATION (Continued)

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

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

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

This condensed consolidated financial information should be read in conjunction with the 2016 annual financial statements. The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2016 except as stated below.

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

In the current period, the Group has adopted all the new and revised International Financing Reporting Standards (“**IFRSS**”) issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. IFRSs comprise International Financing Reporting Standards (“**IFRS**”); International Accounting Standards (“**IAS**”); and Interpretations. The adoption of these new and revised IFRSs did not have any significant effect on the condensed consolidated financial information.

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is not yet effective. The Group will adopt the new standards and amendments to standards on the respective effective dates.

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

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

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

### (a) IFRS 9 Financial Instruments

IFRS 9, effective on or after 1 January 2018, replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held.

The Group does not expect the new standard to have a significant impact on the classification of its financial assets as the Group does not have any debt instruments currently classified as held-to-maturity or classified as available-for-sale financial assets, or equity investments.

There will be no impact on the Group's accounting for financial liabilities, as the requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is still in the process of making an assessment of what the impact of this standard is expected to be in the period of initial application. It may result in an earlier recognition of impairment for trade receivables and other financial assets measured at amortised costs.

### (b) IFRS 15 Revenue from Contracts with Customers

IFRS 15, effective on or after 1 January 2018, replaces all existing revenue standards and interpretations. The new standard introduces a five-step model to recognise revenue.

Based on the preliminary result of assessment, the Group's revenue recognition policy largely follows IFRS 15. Therefore, the Group does not expect a material impact on the adoption of new IFRS 15.

### (c) IFRS 16 Leases

IFRS 16, effective on or after 1 January 2019, replaces IAS 17 Leases and related interpretations. IFRS 16 removes the distinction between operating leases and finance leases. Lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets).

The standard will affect mainly the accounting of the Group's office property lease, which is currently classified as operating lease. As disclosed in Note 27, the Group's future minimum lease payments under non-cancellable operating leases for its office property amounted to approximately RMB869,000 at 30 June 2017. The Group will perform a more detailed assessment in order to determine the new assets and liabilities arising from its operating lease commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 5. FAIR VALUE MEASUREMENTS

Except as disclosed below, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate to their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

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

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

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

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

### (a) Disclosures of level in fair value hierarchy at 30 June 2017:

Description	Fair value measurements as at 30 June 2017			Total 2017 (unaudited) RMB'000
	Level 1	Level 2	Level 3	
	(unaudited) RMB'000	(unaudited) RMB'000	(unaudited) RMB'000	
<b>Recurring fair value measurements:</b>				
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
Derivatives – commodities futures contracts	62	–	–	62
Derivatives – foreign currency forwards	–	1,264	–	1,264
Derivative component of convertible bond	–	–	36,361	36,361
<b>Total recurring fair value measurements</b>	<b>62</b>	<b>1,264</b>	<b>36,361</b>	<b>37,687</b>

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 5. FAIR VALUE MEASUREMENTS (Continued)

### (a) Disclosures of level in fair value hierarchy at 30 June 2017: (Continued)

Description	Fair value measurements as at 31 December 2016			Total
	Level 1	Level 2	Level 3	2016
	(audited)	(audited)	(audited)	(audited)
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Recurring fair value measurements:</b>				
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
Derivative component of convertible bond	–	–	50,853	50,853

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

The movements in the derivative component of convertible bond held at the end of the reporting period under level 3 fair value measurements during the period are presented in Note 23. Fair value adjustment on the derivative component of convertible bond is recognised and included in the line item “other gains and losses” on the face of the condensed consolidated statement of profit or loss and other comprehensive income. All the gains recognised in profit or loss for the period arose from the derivative component of convertible bond held at the end of the reporting period.

### (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2017:

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

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

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 5. FAIR VALUE MEASUREMENTS (Continued)

### (c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2017: (Continued)

#### Level 2 fair value measurements

Description	Valuation technique	Inputs	Fair value as at 30 June 2017 Liabilities (unaudited) RMB'000
Derivatives – foreign currency forwards	Discounted cash flows	Forward exchange rate	
		Contract exchange rate	
		Discount rate	(1,264)

#### Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Unobservable inputs (%)	Effect on fair value for increase of inputs	Fair value as at 30 June 2017 Liabilities (unaudited) RMB'000
Derivative component of convertible bond	Binomial option pricing method	Discount rate	12.2%	Increase	(36,361)

Description	Valuation technique	Unobservable inputs	Unobservable inputs (%)	Effect on fair value for increase of inputs	Fair value as at 31 December 2016 Liabilities (audited) RMB'000
Derivative component of convertible bond	Binomial option pricing method	Discount rate	16.9%	Increase	(50,853)

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

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

There were no changes in the valuation techniques used.



# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 6. SEGMENT INFORMATION

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

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

During the six months ended 30 June 2017, the CODM has identified the following two reportable segments under IFRS 8 “Operating Segments”. No operating segments have been aggregated to form the following reportable segments.

- a. Yarns – manufacturing and trading of yarns
- b. Staple fibres – manufacturing and trading of polyester staple fibres

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

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

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

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

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 6. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss:

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

Six months ended 30 June 2016

Revenue from external customers	631,296	–	631,296
Interest income	484	4	488
Interest expense	(23,207)	–	(23,207)
Depreciation and amortisation	(27,219)	(96)	(27,315)
<b>Profit/(Loss) of reportable segments</b>	<b>4,562</b>	<b>(663)</b>	<b>3,899</b>

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 6. SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
<b>Revenue</b>		
Total revenue of reportable segments	<b>724,088</b>	631,296
Elimination of intersegment revenue	<b>(17,694)</b>	–
Group's revenue	<b>706,394</b>	631,296
<b>Profit or loss</b>		
Total profit of reportable segments	<b>22,815</b>	3,899
Elimination of intersegment losses	<b>119</b>	–
Adjusted for income in relation to government grants	<b>2,997</b>	191
Unallocated expense, net		
Other income, gains and losses	<b>(130)</b>	(6)
Administrative and other expenses	<b>(916)</b>	(891)
Taxation	<b>(4,704)</b>	(2,031)
Group's profit for the period	<b>20,181</b>	1,162

## 7. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 8. OTHER INCOME

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Interest income on bank deposits	361	499
Government grants	2,997	191
Income from scrap sales	7,587	4,464
Rental income	318	386
Others	165	84
	<b>11,428</b>	5,624

## 9. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Fair value gain on derivative component of convertible bond	14,492	–
Net foreign exchange gain	3,613	456
Loss on disposal of property, plant and equipment	(26)	(6)
Loss on early redemption of note instruments	(210)	–
Realised gain on financial assets at fair value through profit or loss	75	–
Unrealised loss on financial liabilities at fair value through profit or loss	(1,326)	–
	<b>16,618</b>	450

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 10. FINANCE COSTS

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Interest on bank borrowings	13,552	12,631
Interest on bond payables	–	8,423
Interest on consideration payables	2,263	2,153
Interest on convertible bond	12,422	–
Interest on notes payable	1,236	–
Finance leases charges	58	65
	<b>29,531</b>	<b>23,272</b>

## 11. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")		
Provision for the period	3,971	621
Deferred tax	733	1,410
	<b>4,704</b>	<b>2,031</b>

No provision for Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

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

Jiangxi Jinyuan, the Company's subsidiary, had been recognised as a state-encouraged high-new technology enterprise from 2014, and the status was valid for a period of three years. Jiangxi Jinyuan was thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016. The application for the renewal of the status of state-encouraged high-new technology enterprise is in progress. The directors strongly believe that Jiangxi Jinyuan should be able to maintain the status.

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

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 11. INCOME TAX EXPENSE (Continued)

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

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

## 12. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Depreciation	<b>28,717</b>	26,782
Operating lease charges		
– Amortisation of prepaid lease payments	<b>545</b>	545
– Land and buildings	<b>258</b>	233
Amortisation of intangible asset	<b>25</b>	25
Cost of inventories sold	<b>643,918</b>	577,741

## 13. DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2017 and 2016.



# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 14. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
<b>Earnings</b>		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<b>22,319</b>	1,486
Finance costs saving on conversion of convertible bond outstanding	<b>11,536</b>	–
Effect of exchange gain relating to dilutive potential ordinary shares	<b>(2,436)</b>	–
Effect of fair value gain on derivative component of convertible bond	<b>(14,492)</b>	–
Earnings for the purpose of calculating diluted earnings per share	<b>16,927</b>	1,486

	Six months ended 30 June	
	2017 (unaudited) '000	2016 (unaudited) '000
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>1,252,350</b>	1,252,350
Effect of dilutive potential ordinary shares arising from convertible bond outstanding	<b>227,000</b>	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>1,479,350</b>	1,252,350

Diluted earnings per share is reported for the prior period, even if it equals basic earnings per share.

## 15. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property, plant and equipment of approximately RMB14,722,000 (for the year ended 31 December 2016: RMB78,109,000). These acquisitions are mainly in relation to its manufacturing plants in the PRC.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 16. INVENTORIES

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Raw materials	111,479	68,669
Work in progress	18,285	17,954
Finished goods	131,229	50,530
	<b>260,993</b>	137,153

## 17. TRADE AND OTHER RECEIVABLES

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Trade receivables	12,463	17,360
Advance payment to suppliers	1,342	18,400
Prepayments and other receivables	2,182	14,428
Value-added tax recoverable	12,400	3,409
	<b>28,387</b>	53,597

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

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
0 – 30 days	8,449	15,045
31 – 90 days	3,540	2,139
Over 90 days	474	176
	<b>12,463</b>	17,360

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 18. BILLS RECEIVABLE

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

	<b>30 June 2017 (unaudited) RMB'000</b>	31 December 2016 (audited) RMB'000
0 – 30 days	5,247	4,679
31 – 60 days	5,649	3,417
61 – 90 days	2,923	2,416
91 – 120 days	2,161	400
121 – 150 days	610	580
Over 150 days	2,250	1,122
	<b>18,840</b>	12,614

Included in bills receivable at 30 June 2017 was an amount of approximately RMB13,931,000 (at 31 December 2016: RMB11,673,000) that were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the bills receivable and the corresponding liabilities.

	<b>Bills receivable endorsed to suppliers with full recourse</b>	
	<b>30 June 2017 (unaudited) RMB'000</b>	31 December 2016 (audited) RMB'000
Carrying amount of recognised financial assets	<b>13,931</b>	11,673
Carrying amount of corresponding liabilities not set-off	<b>(13,931)</b>	(11,673)

At 30 June 2017, certain bills receivable of the Group have been pledged as collateral for secured bank borrowings.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 19. TRADE AND OTHER PAYABLES

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Trade payables	92,571	62,934
Other payables	15,890	7,932
Other tax payables	15,540	16,879
Accrued for salaries and wages	12,681	16,532
Other accrued charges	77,889	74,715
Payables for acquisition of property, plant and equipment	6,353	24,742
Deposits from customers	38,453	21,222
Dividend payables	243	243
Consideration payables (Note 24)	53,819	8,593
Amount due to a related company (Note)	77,000	–
	<b>390,439</b>	<b>233,792</b>

Note: During the six months ended 30 June 2017, certain unsecured loans were borrowed from a related company – 江西宝源彩纺有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co., Limited (“**Jiangxi Baoyuan**”)) ranging from RMB2,000,000 to RMB20,000,000. These loans were interest-free and repayable on demand. Jiangxi Baoyuan is considered as a related company of the Group since its 80% equity interest is held by a close family member of the executive directors.

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

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
0 – 30 days	65,136	47,683
31 – 90 days	23,069	10,452
Over 90 days	4,366	4,799
	<b>92,571</b>	<b>62,934</b>

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 20. BILLS PAYABLE

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

	<b>30 June 2017 (unaudited) RMB'000</b>	31 December 2016 (audited) RMB'000
0 – 30 days	<b>10,143</b>	9,029
31 – 90 days	<b>16,912</b>	25,540
Over 90 days	<b>7,705</b>	17,579
	<b>34,760</b>	52,148

## 21. BANK BORROWINGS

	<b>30 June 2017 (unaudited) RMB'000</b>	31 December 2016 (audited) RMB'000
Bank loans		
– Secured	<b>366,298</b>	411,218
– Unsecured	<b>124,369</b>	105,798
Trust receipt loans		
– Secured	–	1,973
	<b>490,667</b>	518,989
Amount payable within one year	<b>424,827</b>	498,729
Amount payable over one year	<b>65,840</b>	20,260
	<b>490,667</b>	518,989

At 30 June 2017, certain assets of the Group have been pledged as collateral for secured bank borrowings.

The directors estimate that the carrying amounts of the Group's bank borrowings are not materially different from their fair value at 30 June 2017.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 22. NOTES PAYABLE

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
HK\$50,000,000 redeemable fixed coupon notes ("Note Instruments")	–	45,434
Analysed as:		
Current liabilities (being accrued interests)	–	705
Non-current liabilities	–	44,729
	–	45,434

In March 2017, the Company early redeemed the Note Instruments.

## 23. CONVERTIBLE BOND

The movements of the liability component and derivative component of the convertible bond during the six months ended 30 June 2017 are set out below:

At 30 June 2017 (unaudited)

	Liability component RMB'000	Derivative component RMB'000	Total RMB'000
At 1 January 2017	69,417	50,853	120,270
Interest charged	12,422	–	12,422
Interest paid	(3,864)	–	(3,864)
Fair value gain	–	(14,492)	(14,492)
Exchange difference	(2,622)	–	(2,622)
At 30 June 2017	75,353	36,361	111,714
Analysed as:			
Current liabilities (being accrued interests)	1,087	36,361	37,448
Non-current liabilities	74,266	–	74,266
	75,353	36,361	111,714



# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 23. CONVERTIBLE BOND (Continued)

At 31 December 2016 (audited)

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

During the six months ended 30 June 2017, none of the convertible bond was redeemed or converted.

The fair value of the liability component of the convertible bond at 30 June 2017 is approximately RMB96,287,000 (at 31 December 2016: RMB92,234,000). This fair value has been calculated by discounting the future cash flows at the market interest rate of 12.2% (at 31 December 2016: 16.9%) (level 3 fair value measurements) as assessed by an independent professional valuer and approved by the directors.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 24. CONSIDERATION PAYABLES

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Consideration payables for the acquisition of Huachun	<b>53,819</b>	51,556
Analysed as:		
Current liabilities	<b>53,819</b>	8,593
Non-current liabilities	–	42,963
	<b>53,819</b>	51,556

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

## 25. SHARE CAPITAL

	Number of shares '000	HK\$'000	
<b>Ordinary shares of HK\$0.1 each</b>			
Authorised:			
At 31 December 2016 (audited) and 30 June 2017 (unaudited)	<b>10,000,000</b>	<b>1,000,000</b>	
	Number of shares '000	HK\$'000	RMB'000
Issued and fully paid:			
At 31 December 2016 (audited) and 30 June 2017 (unaudited)	<b>1,252,350</b>	<b>125,235</b>	<b>101,989</b>

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 26. CAPITAL COMMITMENTS

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	<b>2,054</b>	417

## 27. OPERATING LEASE COMMITMENTS

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises fall due as follows:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Within one year	<b>521</b>	83
In the second to fifth years inclusive	<b>348</b>	–
	<b>869</b>	83

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

## 28. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the condensed consolidated financial information, the Group had the following transactions and balances with its related parties:

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 28. RELATED PARTY TRANSACTIONS (Continued)

### (a) Transactions with a related company

In June 2017, the Group sold finished goods to a related company, Jiangxi Baoyuan, at a cash consideration of approximately RMB772,000 (for the six months ended 30 June 2016: Nil). Jiangxi Baoyuan is considered as a related company of the Group since its 80% equity interest is held by a close family member of the executive directors.

### (b) Compensation of Key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the six months ended 30 June 2017 are as follows:

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Short term benefits	1,860	1,793
Post-employment benefits	30	32
	<b>1,890</b>	1,825

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

At 30 June 2017, included in accrued salaries and wages was an amount of approximately RMB60,000 (at 31 December 2016: RMB161,000) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

At 30 June 2017, included in prepayments and other receivables was an amount of approximately RMB39,000 (at 31 December 2016: Nil) being advance of remuneration to a director and will be settled by the end of December 2017.

# Notes to the Condensed Consolidated Financial Information

For the six months ended 30 June 2017

## 28. RELATED PARTY TRANSACTIONS (Continued)

### (c) Balance with related company:

Included in other payables:

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Amount due to a related company - Jiangxi Baoyuan	77,000	—

### (d) Other transactions with related parties

At 30 June 2017, the Group's convertible bond (at 31 December 2016, the Group's Note Instruments and convertible bond) was secured by 514,305,000 ordinary shares of the Company held by Popular Trend, a company wholly owned by an executive director of the Company, and the cash maintained by Popular Trend under a collateral account, and was guaranteed by an executive director of the Company.

## 29. CONTINGENT LIABILITIES

At 30 June 2017, the Group did not have any significant contingent liabilities (at 31 December 2016: Nil).

## 30. APPROVAL OF FINANCIAL INFORMATION

The condensed consolidated financial information was approved and authorised for issue by the Board of Directors on 25 August 2017.