ANNUAL REPORT 2019

CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

CONTENTS

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Director
Mr. Zheng Yongxiang

Non-Executive Director
Mr. Zheng Hong (*Chairman*, re-designated from executive director on 5 December 2019)
Mr. Sze Irons, BBS, JP (resigned on 6 June 2019)

Independent Non-Executive Directors
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing (appointed on 5 December 2019)
Mr. Ng Wing Ka JP (resigned on 30 December 2019)

BOARD COMMITTEES

Audit committee
Ms. Zhang Baixiang *(Chairman)*
Mr. Xu Yiliang
Mr. Li Guoxing (appointed on 5 December 2019)
Mr. Ng Wing Ka JP (resigned on 30 December 2019)

Remuneration committee
Mr. Xu Yiliang *(Chairman)*
Ms. Zhang Baixiang
Mr. Zheng Hong
Mr. Li Guoxing (appointed on 5 December 2019)
Mr. Ng Wing Ka JP (resigned on 30 December 2019)

Nomination committee
Mr. Zheng Hong *(Chairman)*
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing (appointed on 5 December 2019)
Mr. Ng Wing Ka JP (resigned on 30 December 2019)

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, Capital Centre
151 Gloucester Road
Wanchai, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Luk and Partners
In Association with
Morgan, Lewis and Bockius

As to PRC law:
Jiangxi Zhiquan Law Offices

AUDITOR

RSM Hong Kong
Certified Public Accountants

INVESTORS RELATIONSHIP CONSULTANT

Anli Financial Communications Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTER AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
(Fengxin Sub-branch)
Bank of Communications Limited
(Nanchang Donghu Sub-branch)
China CITIC Bank
(Nanchang Branch)
China Construction Bank Corporation
(Fengxin Sub-branch)
China Everbright Bank Co. Ltd.
(Fuzhou Nanmen Sub-branch)
Dah Sing Bank, Limited
Far Eastern Leasing Company Limited
Fengxin Rural Commercial Bank
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Industrial Bank Co. Ltd.
(Nanchang Branch)
Shanghai Pudong Development Bank Co. Ltd.
(Nanchang Branch)
Sumitomo Mitsui Finance and Leasing (China) Co., Ltd.
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Chairman's Statement

In 2019, the economy of the United States (the "**US**") has achieved moderate growth but the economy of the European Union (the "**EU**") countries remained sluggish. The economic growth rate of the People's Republic of China (the "**PRC**") has dropped to its lowest level in almost three decades. The Sino-US trade war, a sluggish European economy and a slowing economy in the PRC have posted challenges for business globally.

The 2019 operating environment was difficult against a background of Sino-US trade war, weak export market, slowing domestic economy and downward price pressure driven by lower commodity prices. Despite the difficult environment, the revenue of China Weaving Materials Holdings Limited (the "**Company**") together with its subsidiaries (the "**Group**") only decreased by 2.2% to approximately RMB1,796.4 million for the year ended 31 December 2019 as compared to approximately RMB1,836.2 million for the year ended 31 December 2018. The gross profit and the loss attributable to the owners of the Company for the year ended 31 December 2019 were approximately RMB116.1 million and approximately RMB1.4 million, respectively. The 2019 results included a one-off, non-cash write off of approximately RMB44.5 million against the property, plant and equipment ("**PPE**") and right-of-use assets of the Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**").

In order to cope with the adverse market conditions, the Group has adjusted its product mix and adapted a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume. The above measures will increase the pressure on gross margin and profitability of the Group but they could result in a healthier inventory level and make the Group more endurable under harsh market conditions.

In January 2020, the US and the PRC governments signed the Phase One trade agreement. It signifies, at least temporarily, a truce of trade war between the two countries, and alleviates one of the major uncertainties for the global economy. However, the outbreak of the Novel Coronavirus (2019-nCoV) epidemic (the "**Epidemic**") has dealt a serious blow to the fragile global economy. In March, the price war between Saudi Arabia and Russia triggered a sudden collapse in crude oil prices. The Epidemic and the crash of crude oil prices sent the global financial markets into panic.

Looking forward, the US and the PRC governments have yet to agree on the Phase Two trade agreement. The Epidemic will take time to be put under control and there is also the threat of downward price pressure of oil related products triggered by falling crude oil prices. All the above factors will continue to pose threats to the already sluggish global economy and the textile industry in the PRC.

The Group will continue to closely monitor the market conditions and take necessary measures to adjust its production capacities, product mix and pricing strategy. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its long term 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.

Zheng Hong
Chairman

Jiangxi PRC, 25 March 2020

Management Discussion and Analysis

MARKET OVERVIEW

In 2019, the US has achieved a GDP growth rate of around 2.5%. However, the GDP growth rate of the EU countries was only around 1.4%. The GDP growth rate in the PRC decreased from a rate of 6.6% for 2018 to 6.0% for 2019, the lowest growth rate in almost three decades. The Sino-US trade war, a sluggish European economy and a slowing economy in the PRC have posted challenges for businesses globally.

After the significant drop in oil prices in the fourth quarter of 2018, the international average crude oil price has been picking up in the first quarter of 2019 and reached over US$65 per barrel in April. However, it has been edging down for the rest of the second quarter and hovered around US$55 per barrel for most of the time for the rest of 2019. The relatively low price of international crude oil price in 2019, as compared with that of 2018, has pushed down the prices of oil related downstream products, including raw materials for polyester yarn products. Due to lower raw materials prices, selling prices of polyester related yarn products have been under pressure.

The international cotton prices have been trading between US70 cents per pound and US75 cents per pound for most of the time in the first quarter of 2019 but the prices have taken a sudden drop to around US65 cents per pound in the second quarter and further dropped to below US60 cents per pound in the third quarter and slowly climbed back to around US70 cents per pound by the end of 2019. The domestic cotton prices in the PRC have been trading at around RMB15,500 per tonne for most of the time in the first quarter of 2019 and they have followed the downward price trend of the international cotton for the rest of year and finished at around RMB13,500 per tonne at the end of 2019. The PRC government has restarted the collection of cotton reserve by the end of 2019. Learning from past experience, the PRC government has taken into account the price disparity between international cotton prices and domestic cotton prices in setting the cotton reserve collection price and no major disturbance to the market was expected. The PRC government also continued with the policy of direct subsidy to Xinjiang farmers and the orderly auction of the PRC national cotton reserve. Despite a more stable regulatory environment, both the international and domestic cotton prices have shown signs of weakness since the second quarter of 2019 under the threat of global economy slowdown triggered by trade war and other uncertainties in the macro environment.

The suspension of trade talks between the PRC and the US in the first half of 2019 together with the increase in tariff from 10% to 25% on US$200 billion worth of export products from China by the US in May have greatly undermined business confidence and created great uncertainty in the macroeconomic environment. A downward price trend of the basic raw materials for polyester related yarn products driven by oil related downstream products and the weakening of domestic cotton prices and international cotton prices have exacerbated unfavourable market conditions for the textile industry as a whole. In Europe, Brexit and political unrest in certain major European countries continued to hinder the economic recovery. The trade war with the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of the enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. Both external and internal factors have introduced risks and uncertainties for the industry as whole.

Management Discussion and Analysis

BUSINESS REVIEW

The sales volume of yarn products of the Group increased by 7.8% from approximately 119,506 tonnes for the year ended 31 December 2018 to approximately 128,808 tonnes for the year ended 31 December 2019. The production volume of yarn products of the Group slightly increased by 0.5% from approximately 122,856 tonnes for the year ended 31 December 2018 to approximately 123,528 tonnes for the year ended 31 December 2019. The revenue of the Group decreased by 2.2% to approximately RMB1,796.4 million for the year ended 31 December 2019 as compared to approximately RMB1,836.2 million for the year ended 31 December 2018. The gross profit and the loss attributable to the owners of the Company for the year ended 31 December 2019 were approximately RMB116.1 million and approximately RMB1.4 million, respectively.

In order to cope with the adverse market conditions, the Group has adjusted its product mix and shifted its emphasis to mass market products which are generally geared to downstream customers engaged in the PRC domestic market. Certain production capacities have been modified from the production of polyester-cotton blended yarn products to pure polyester yarn products which are mass market products. Although high end products, including polyester-cotton blended yarn products and pure cotton yarns products with higher counts, generally produce better margin but they are more geared to downstream customers engaged in export markets to the US and Europe which are currently under severe headwinds. The Group is also adapting a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume. The above measures will increase the pressure on gross margin and profitability of the Group but they could result in a healthier inventory level and make the Group more endurable under harsh market conditions.

The Group's subsidiary company, Xinyuan, has continued to rationalise its production in 2019. Xinyuan is engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. The sales volume of PSF increased by 9.0% from approximately 20,000 tonnes for the year ended 31 December 2018 to approximately 21,808 tonnes for the year ended 31 December 2019. The production volume of PSF increased by 63.1% from approximately 18,000 tonnes for the year ended 31 December 2018 to approximately 29,358 tonnes for the year ended 31 December 2019.

Xinyuan has been utilising recycled plastic chips as one of its raw materials and the related products are considered environmental friendly. However, since the PRC government restricted the import of overseas waste in the end of 2017, the supply of recycled plastic chips has been very tight and the prices have gone up. This has led to narrowing of price disparity between PSF manufactured from recycled raw materials and PSF manufactured directly from petroleum by-products like purified terephthalic acid. PSF manufactured from recycled raw materials has come under intense competitive pressure and the industry has been consolidating since then.

The continuous downward trend in oil prices in the second half of 2019 has exacerbated the difficult operating environment for manufacturers of PSF from recycled raw materials and Xinyuan, as a result, suffered heavy operating loss in 2019. In this connection, for the sake of prudence, the Group has conducted a valuation of the PPE of Xinyuan and has written down the book value by approximately RMB44.1 million. However, as the industry further consolidates and some international apparel brands have begun mandating the use of environmental friendly raw materials for their products, the Group considered the industry should reach a turning point soon. As one of the minority shareholders of Xinyuan did not want to continue with the investment, the Group has acquired an additional 26% interest in Xinyuan in July 2019 from the minority shareholder at a consideration of RMB18.2 million. The Group is confident in the long term future of Xinyuan and believes the acquisition could streamline the shareholding structure and improve management efficiency.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2019 was approximately RMB1,796.4 million, representing a decrease of approximately RMB39.8 million, or 2.2%, as compared to last year. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2019 RMB'000		Year ended 31 December 2018 RMB'000	
Polyester yarns	**618,745**	**34.4%**	599,412	32.6%
Polyester-cotton and viscose-cotton blended yarns	**718,561**	**40.0%**	745,522	40.6%
Grey and deep grey mélange and mélange-cotton blended yarns	**165,754**	**9.2%**	215,486	11.7%
Viscose and stretchable core viscose yarns	**141,241**	**7.9%**	126,704	6.9%
Cotton yarns	**42,329**	**2.4%**	37,251	2.1%
Raw materials	**109,760**	**6.1%**	111,786	6.1%
	1,796,390	**100%**	1,836,161	100%

The slight decrease in the revenue of the Group for the year ended 31 December 2019 was mainly attributable to the decrease in the average selling price of yarn products of the Group of 9.3% from approximately RMB14,429 per tonne for the year ended 31 December 2018 to approximately RMB13,089 per tonne for the year ended 31 December 2019, despite the sales volume increased by approximately 7.8% for the year ended 31 December 2019 as compared to 2018.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB196.0 million for the year ended 31 December 2018 to approximately RMB116.1 million for the year ended 31 December 2019. The gross profit margin of the Group decreased from approximately 10.7% for the year ended 31 December 2018 to approximately 6.5% for the year ended 31 December 2019. The decrease in gross profit was mainly due to decrease in gross profit margin despite revenue has only slightly decreased by approximately 2.2%. Due to adverse market conditions in the second half of 2019, the Group has adjusted its product mix and pricing strategy in order to achieve sales.

Other Income

Other income of the Group decreased from approximately RMB31.2 million for the year ended 31 December 2018 to approximately RMB28.6 million for the year ended 31 December 2019, representing a decrease of approximately RMB2.6 million or 8.3%. The decrease in other income was mainly due to decrease in income from scrap sales and government grants.

Distribution and Selling Expenses

Distribution and selling expenses of the Group increased from approximately RMB25.8 million for the year ended 31 December 2018 to approximately RMB28.4 million for the year ended 31 December 2019, representing an increase of approximately RMB2.6 million or 10.1%. The increase in distribution and selling expenses was mainly due to increase in sales volume of approximately 7.8% and change in customers and delivery destinations mix. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.6% for the year ended 31 December 2019 (year ended 31 December 2018: 1.4%).

Administrative Expenses
Administrative expenses of the Group increased from approximately RMB53.7 million for the year ended 31 December 2018 to approximately RMB55.6 million for the year ended 31 December 2019, representing an increase of 3.5% or approximately RMB1.9 million. The increase was mainly due to increase in staff cost. Administrative expenses as a percentage of revenue of the Group was approximately 3.1% for the year ended 31 December 2019 (year ended 31 December 2018: 2.9%).

Finance Costs
Finance costs of the Group decreased from approximately RMB35.7 million for the year ended 31 December 2018 to approximately RMB32.7 million for the year ended 31 December 2019, representing a decrease of 8.4% or approximately RMB3.0 million. The decrease in the Group's finance costs was mainly due to less finance charge on discounted bills transactions during the year.

Income Tax Expense
The Group's income tax expense decreased from approximately RMB29.3 million for the year ended 31 December 2018 to approximately RMB4.1 million for the year ended 31 December 2019, representing a decrease of 86.0% or approximately RMB25.2 million. The decrease in income tax expense was mainly due to the deferred tax credit since a PRC subsidiary is eligible for a reduced preferential enterprise income tax rate.

(Loss)/Profit attributable to Owners of the Company and Net (Loss)/Profit Margin
Loss attributable to owners of the Company for the year ended 31 December 2019 was approximately RMB1.4 million (year ended 31 December 2018: profit attributable to owners of the Company of approximately RMB80.3 million). The net loss margin of the Group for the year ended 31 December 2019 was approximately 0.1% (year ended 31 December 2018: net profit margin of 4.4%). The Group's net loss was mainly due to the decrease in gross profit and impairment losses on PPE.

(Loss)/Earnings per Share
The basic loss per share of the Company for the year ended 31 December 2019 was approximately RMB0.11 cents as compared with approximately RMB6.41 cents basic earnings per share for the year ended 31 December 2018. The loss per share of the Company was due to the net loss for the year ended 31 December 2019.

Liquidity and Financial Resources
The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC and Hong Kong. During the year ended 31 December 2019, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB135.6 million (31 December 2018: RMB47.5 million), pledged bank deposits of approximately RMB33.8 million (31 December 2018: RMB69.8 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2018: RMB0.5 million) at 31 December 2019. The Group's cash and bank balances were mainly held in Hong Kong Dollars ("**HK$**"), US Dollars ("**US$**") and Renminbi ("**RMB**").

Capital Structure and Pledge of Assets
The Group's interest-bearing borrowings were made in RMB, US$ and HK$. As at 31 December 2019, the Group's interest-bearing borrowings amounted to approximately RMB489.4 million (31 December 2018: RMB465.2 million), of which approximately RMB442.2 million (90.4%) (31 December 2018: RMB391.0 million (84.0%)) was repayable within one year or on demand. The Group's banking facilities were secured by its right-of-use assets, PPE and pledged bank deposits with a carrying value of approximately RMB699.1 million in aggregate (31 December 2018: RMB772.3 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities.

Gearing Ratio
The gearing ratio of the Group, which is equal to the total of bank and other borrowings, entrusted loan payable, lease liabilities and bills payable to total assets, was approximately 38.4% at 31 December 2019 (31 December 2018: 41.0%). Net current liabilities and net assets at 31 December 2019 was approximately RMB399.5 million (31 December 2018: RMB407.6 million) and RMB566.2 million (31 December 2018: RMB621.5 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, other receivables, bills payable, bank and other borrowings, lease liabilities and trade and other payables which mainly expose the Group to risk in HK$ and US$. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2019 were approximately RMB5.3 million (31 December 2018: RMB4.7 million) and RMB48.0 million (31 December 2018: 32.8 million), respectively. The Group had not used any financial instrument for hedging purposes during the year ended 31 December 2019.

Contingent Liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 31 December 2019, the Group had a total of 3,182 employees (31 December 2018: 3,196). 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 the Directors and employees. No share option has been granted pursuant to the scheme since its adoption.

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

The Group has acquired an additional 26% interest in Xinyuan from a minority shareholder in July 2019 at a consideration of RMB18.2 million.

Save as disclosed above, during the year ended 31 December 2019, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

In 2019, the PRC suffered from the trade war with the US, a weak European economy and a slowing domestic economy. In January 2020, the US and the PRC governments signed the Phase One trade agreement. It signifies, at least temporarily, a truce of trade war between the two countries, and alleviates one of the major uncertainties for the global economy. However, the outbreak of the Epidemic has dealt a serious blow to the fragile global economy. In March, the price war between Saudi Arabia and Russia triggered a sudden collapse in crude oil prices. The Epidemic and the crash of crude oil prices sent the global financial markets into panic. The above-mentioned factors have introduced risks and difficulties for the global economy and the textile industry as a whole.

In order to cope with the adverse market conditions, the Group has modified certain production capacities in order to adjust its product mix. The Group also adapted a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume.

Looking forward, the US and the PRC governments have yet to agree on the Phase Two trade agreement. The Epidemic will take time to be put under control and there is also the threat of downward price pressure of oil related products triggered by falling crude oil prices. All the above factors will continue to pose threats to the already sluggish global economy and the textile industry in the PRC.

The Group will continue to closely monitor the market conditions and take necessary measures to adjust its production capacities, product mix and pricing strategy. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its long term future. The Group believes it is well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.

Report of the Directors

The Directors are pleased to present their report and the consolidated audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the business of manufacturing and trading of yarns products and related raw materials. Details of the principal activities of the principal subsidiaries of the Company are set out in Note 46 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group and the Company at that date are set out in the consolidated financial statements on pages 39 to 41 of this annual report and Note 44 to the consolidated financial statements.

BUSINESS REVIEW

Business Review and Future Development

Please refer to the "Chairman's Statement" and the "Business Review" and "Prospects" sections of the "Management Discussion and Analysis" of this annual report for details.

Principal Risks and Uncertainties

Please refer to the "Chairman's Statement", the "Market Overview" section of the "Management Discussion and Analysis", Note 2 and Note 6 to the consolidated financial statements of this annual report for details.

Events after the Reporting Period

After the outbreak of the Epidemic in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the outbreak of the Epidemic and evaluating its impact on the financial position, cash flows and financial performance of the Group. Given the dynamic nature of the outbreak of the Epidemic, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and financial performance at the date on which these financial statements are authorised for issue.

Business Analysis using Financial Key Performance Indicators

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

Compliance with Laws and Regulations

For the year ended 31 December 2019 and up to the date of this report, the Company was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Group.

Environmental Policies and Performance

The Group is committed to energy saving and environmental protection. The Group has complied with the relevant environmental rules and regulations and possesses all the required approval from the relevant Chinese regulators. The subsidiaries of the Company, Jinyuan Textile Co. Ltd. Jiangxi ("**Jiangxi Jinyuan**") and Jiangxi Huachun Color Spinning Technology Development Co., Ltd, ("**Huachun**"), have obtained the ISO 14001 certificate on environmental management. Jiangxi Jinyuan has over 25,000 square metres of green areas within its factory premises and it has constructed a reservoir to collect rain water for use in the workshop. Jiangxi Jinyuan and Huachun have installed solar panels on the workshop rooftop to provide electricity for workshop lighting. The environment, social and governance report as required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") will be issued separately by the Company in due course.

Relationship with Employees

The Directors consider the Group has maintained a harmonious relationship with its employees.

Please refer to the "Employees, Remuneration and Share Option Scheme" section of the "Management Discussion and Analysis" of this annual report for details.

Relationship with Customers and Suppliers

The Group has a large customer base. As at 31 December 2019, the Group had over 2,200 customers. The Group does not rely on a few large customers. During the year ended 31 December 2019, sales to the Group's five largest customers accounted for 12.0% of the total sales of the Group for 2019 and sales to the largest customer included therein accounted for 3.7% of the total sales of the Group for the same year.

Due to the nature of the raw materials and large quantities required by the Group, there are not too many raw materials suppliers with sufficient scale that could cater for the requirement of the Group. As at 31 December 2019, the Group had over 70 major suppliers of raw materials, production equipment and production accessories. Purchases from the Group's five largest suppliers accounted for 56.5% of the total purchases of the Group for the year ended 31 December 2019 and purchases from the Group's largest supplier included therein accounted for 30.2% of the total purchases of the Group for the same year. The Directors consider the Group has maintained a harmonious business relationship with its suppliers.

The Group communicates regularly with its customers and suppliers and carries out reciprocal site visits to understand each other's requirements and collect market intelligence.

DIVIDEND

An interim dividend of HK1.5 cents in cash per ordinary share was approved and declared by the Board on 28 August 2019.

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2019.

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years (including the year ended 31 December 2019) is set out on page 128 of this annual report. This summary does not form part of the audited consolidated financial statements.

Report of the Directors

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in Note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in Note 35 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company (the "**Shares**") during the year ended 31 December 2019.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB79.8 million.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2019, the Group did not make any charitable contribution.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, sales to the Group's five largest customers accounted for 12.0% of the total sales of the Group for 2019 and sales to the largest customer included therein amounted to 3.7% of the total sales of the Group for the same year.

Purchases from the Group's five largest suppliers accounted for 56.5% of the total purchases of the Group for the year ended 31 December 2019 and purchases from the Group's largest supplier included therein amounted to 30.2% of the total purchases of the Group for the same year.

None of the Directors or any of their associates or any substantial Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers at any time during the year.

Report of the Directors

DIRECTORS

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

Executive Director:

Mr. Zheng Yongxiang

Non-Executive Directors:

Mr. Zheng Hong *(Chairman)* (re-designated from executive Director on 5 December 2019)
Mr. Sze Irons BBS, JP (resigned on 6 June 2019)

Independent Non-Executive Directors:

Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing (appointed on 5 December 2019)
Mr. Ng Wing Ka JP (resigned on 30 December 2019)

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

As such, Mr. Li Guoxing will retire as a Director at the forthcoming annual general meeting of the Company to be held on 17 July 2020 (the "**Annual General Meeting**") and will offer himself for re-election.

Pursuant to Article 84 of the Articles, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Article 84 of the Articles, all the Directors who retire at the Annual General Meeting, being eligible, will offer themselves for re- election.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 30 to 32 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Zheng Yongxiang, the executive Director, and Mr. Zheng Hong, the non-executive Director, has respectively entered into a service contract with the Company for a term of three years commencing from 3 December 2017 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Ms. Zhang Baixiang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 27 November 2017. Mr. Xu Yiliang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 20 October 2019. Mr. Li Guoxing, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 5 December 2019. These appointments may be terminated by not less than one month's prior notice in writing served by the Company.

The details of the remuneration of each of the Directors are disclosed in Note 16 to the consolidated financial statements. No Director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. The Directors are subject to retirement by rotation at least once every three years as required by the Articles.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence from the Group. Based on such confirmations, the Company considers that each of such Directors to be independent from the Group for the purpose of Rule 3.13 of the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2019.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") under the provisions of Divisions 7 and 8 of Part XV of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), are set out below:

Name of Director	Nature of Interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Mr. Zheng Hong	Interest of a controlled corporation	Long Position	514,305,000 shares(Note)	41.07%
Mr. Zheng Yongxiang	Beneficial owner	Long Position	67,681,200 shares	5.40%

Note: These Shares are held by Popular Trend Holdings Limited ("**Popular Trend**"), the entire issued share capital of which is owned by Mr. Zheng Hong.

Save as disclosed above, as at 31 December 2019, 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 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 22 December 2011. The remaining life of the Scheme is approximately 1.8 years as at the date of this report. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

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

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

(i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

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

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

Share options granted to a Director, chief executive or substantial shareholder of the Company (as defined under the Listing Rules), or to any of their respective associates (as defined under the Listing Rules), are required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates of the Company, (i) representing in aggregate over 0.1%, or such other percentage as may from time to time provided under the Listing Rules, of the Shares in issue on the date of grant; and (ii) 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 of grant.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until (but not including) 22 December 2021.

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

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2019, 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 (Note)	Beneficial owner	Long Position	514,305,000 shares	41.07%

Note: Popular Trend is wholly-owned by Mr. Zheng Hong.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contracts of significance have been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2019.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders, namely Popular Trend and Mr. Zheng Hong, has confirmed to the Company of his/its compliance with the non-compete undertakings that he/it provided to the Company on 3 December 2011. The independent non-executive Directors have reviewed the status of the compliance and confirmed that all of these non-compete undertakings have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2019 and up to and including the date of this annual report.

PENSION SCHEME

The Group has established various welfare plans including the provision of basic pension funds, basic medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the rules and regulations and the existing policy requirements of the PRC and Hong Kong government.

CONNECTED TRANSACTIONS

Save as disclosed below, no connected transaction was entered into or in existence for the year ended 31 December 2019.

Exempt Connected Transactions

In 2019, certain unsecured loans ranging from RMB2,000,000 to RMB30,000,000 were borrowed from 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co., Limited ("**Jiangxi Baoyuan**")). Theses loans had no security over the assets of the Group, were interest-free and repayable on demand and fully settled during the year ended 31 December 2019. Jiangxi Baoyuan is considered as a connected party of the Company since its 85% equity interest is held by a close family member of two Directors.

On 4 December 2018, the Group entered into a two-year entrusted loan agreement with a director – Mr. Zheng Yongxiang and a bank, pursuant to which Mr. Zheng Yongxiang provided a loan of RMB50,000,000 to the Group through this entrusted bank. The entrusted loan is unsecured and arranged at 6% fixed interest rate per annum. The principal amount is repayable on 19 October 2020. The amount of entrusted loan interest paid by the Group during the year ended 31 December 2019 was approximately RMB3,042,000.

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

In 2019, the Group purchased raw materials of approximately RMB171,000 from Jiangxi Baoyuan. The transactions were de minimis transactions and fully exempt from Shareholders' approval, annual review and all disclosure requirements pursuant to Rule 14A.76 of the Listing Rules.

Continuing Connected Transaction

On 7 July 2017, Xinyuan, an indirect subsidiary of the Company, entered into the Framework Supply Agreement with Jiangxi Baoyuan in relation to the supply of PSF by Xinyuan to Jiangxi Baoyuan (the "**Baoyuan Supply Agreement**"). Jiangxi Baoyuan is an associate of Mr. Zheng Yongxiang and Mr. Zheng Hong, both Directors, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Baoyuan Supply Agreement constitute continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The Baoyuan Supply Agreement was approved by independent Shareholders at an extraordinary general meeting of the Company held on 8 September 2017.

The Baoyuan Supply Agreement has a term commencing from 8 September 2017 to 30 June 2020 and the annual caps for the following periods, for the year ended 31 December 2017, from 1 January 2018 to 31 December 2018, from 1 January 2019 to 31 December 2019 and from 1 January 2020 to 30 June 2020, are RMB40,000,000, RMB85,000,000, RMB95,000,000 and RMB50,000,000, respectively. The sale of PSF from Xinyuan to Jiangxi Baoyuan for the year ended 31 December 2019 was approximately RMB6,760,000.

As disclosed in the announcement of the Company dated 5 December 2019, the Baoyuan Supply Agreement was terminated on that date due to change in market conditions.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors have reviewed the continuing connected transactions for the year ended 31 December 2019 and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreement governing them on terms that are fair and reasonable, and that appropriate internal control procedures are in place, and in the interests of the listed issuer's Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with paragraph 14A.56 of the Listing Rules.

The above connected transactions are also related party transactions of the Group. Save as disclosed above, none of other related party transactions as set out in Note 41 to the consolidated financial statements constitute as non-exempt connected transactions or non-exempt continuing connected transactions of the Group in accordance with the Listing Rules during the year ended 31 December 2019.

SUFFICIENCY OF PUBLIC FLOAT

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

PERMITTED INDEMNITY PROVISION

The Articles provide that for the time being acting in relation to any of the affairs of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of duties of his office or otherwise in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group which the Company or any of its subsidiaries was a party, subsisted at the end of or at any time during the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 14 July 2020 to Friday, 17 July 2020, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 13 July 2020.

AUDITOR

The consolidated financial statements for the year ended 31 December 2019 have been audited by RSM Hong Kong who shall retire at the forthcoming Annual General Meeting. A resolution will be proposed at the forthcoming Annual General Meeting to re-appoint RSM Hong Kong as auditor of the Company.

On behalf of the Board
Zheng Hong
Chairman
Jiangxi PRC, 25 March 2020

Corporate Governance Report

The Board hereby presents this Corporate Governance Report for the year ended 31 December 2019.

A. CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2019, the Company had complied with the code provisions of the Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

In respect of code provision C2.5 of the CG Code, the Company has not set up an internal audit ("**IA**") function. The Company has considered the size and complexity of the operations of the Group and the potential cost involved in setting up an IA function. The Company considers that the existing organisation structure and the close supervision of the executive management could provide sufficient internal control and risk management for the Group. The Audit Committee under the Board will review the effectiveness of the internal control and risk management of the Group. The Board will conduct a review for the need of an IA function on an annual basis.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the code of conduct governing the Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, each of them has complied with the required standard as set out in the Model Code throughout the year ended 31 December 2019.

C. BOARD OF DIRECTORS

Directors' and Officers' Insurance

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

Board Composition

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

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

The Board has three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Ms. Zhang Baixiang, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board in compliance with Rule 3.10A of the Listing Rules.

Each of Mr. Zheng Yongxiang, the executive Director, and Mr. Zheng Hong, the non-executive Director, has respectively entered into a service contract with the Company for a term of three years commencing from 3 December 2017 and may be terminated by not less than three months' prior notice in writing served by either party on the other.

Ms. Zhang Baixiang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 27 November 2017. Mr. Xu Yiliang, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 20 October 2019. Mr. Li Guoxing, an independent non-executive Director, has signed an appointment letter with the Company for a term of three years commencing from 5 December 2019. These appointments may be terminated by not less than one month's prior notice in writing served by the Company.

The Board comprises the following Directors:

Executive Director:
Mr. Zheng Yongxiang

Non-Executive Director:
Mr. Zheng Hong *(Chairman)* (re-designated from executive Director on 5 December 2019)

Independent Non-Executive Directors:
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing (appointed on 5 December 2019)

Chairman and Chief Executive Officer

The Company has appointed Mr. Zheng Hong as the Chairman and Mr. Zheng Yongxiang has assumed the role of the Chief Executive Officer. The roles of the Chairman and the Chief Executive Officer are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in discharging its responsibilities. The Chief Executive Officer is responsible for the day-to-day management of the Group's business.

Mr. Zheng Hong is the younger brother of Mr. Zheng Yongxiang. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

Meeting Attendance

The attendance of individual members of the Board at Board meetings, meetings of the Board committees and general meetings during the year ended 31 December 2019, as well as the number of such meetings held, are set out as follows:

	Meetings attended/held				
	Board	Remuneration Committee	Nomination Committee	Audit Committee	Annual General Meeting
Number of meetings	6	2	2	2	1
Executive Director:					
Mr. Zheng Yongxiang	6/6	–	–	–	1/1
Non-Executive Directors:					
Mr. Zheng Hong (re-designated from executive Director on 5 December 2019)	6/6	2/2	2/2	–	1/1
Mr. Sze Irons BBS, JP (resigned on 6 June 2019)	1/6	–	–	–	0/1
Independent Non-Executive Directors:					
Ms. Zhang Baixiang	6/6	2/2	2/2	2/2	1/1
Mr. Xu Yiliang	6/6	2/2	2/2	2/2	1/1
Mr. Li Guoxing (appointed on 5 December 2019)	0/6	0/2	0/2	0/2	0/1
Mr. Ng Wing Ka JP (resigned on 30 December 2019)	3/6	2/2	2/2	1/2	0/1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of the executive Director during the year.

Board Committees

The Board has established the remuneration committee, nomination committee and audit committee (collectively, "**Board Committees**") with defined terms of reference. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

A remuneration committee was established by the Company on 3 December 2011 (the "**Remuneration Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to the Directors and members of senior management of the Group. Mr. Xu Yiliang, an independent non-executive Director, was appointed as the chairman of the Remuneration Committee on 30 December 2019, replacing Mr. Ng Wing Ka JP. The other members are Ms. Zhang Baixiang and Mr. Li Guoxing, who are also independent non-executive Directors, and Mr. Zheng Hong, the non-executive Director.

During the year ended 31 December 2019, two meetings were held by the Remuneration Committee. The Remuneration Committee reviewed and approved the remuneration packages of the executive Director and senior management. The Remuneration Committee also reviewed and approved the remuneration package of Mr. Li Guoxing, an independent non-executive Director appointed on 5 December 2019 and the remuneration package of Mr. Zheng Hong upon his re-designation from an executive Director to a non-executive Director.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2019 is set out below:

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

Further particulars regarding the five highest paid employees and the Directors' remuneration as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in Notes 15 and 16 to the consolidated financial statements.

Nomination Committee

A nomination committee was established by the Company on 3 December 2011 (the "**Nomination Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and members of senior management of the Group. The Nomination Committee comprises all the independent non-executive Directors, namely, Ms. Zhang Baixiang, Mr. Xu Yiliang, Mr. Li Guoxing (appointed on 5 December 2019) and Mr. Ng Wing Ka JP (resigned on 30 December 2019) and the non-executive Director, Mr. Zheng Hong. Mr. Zheng Hong is the chairman of the Nomination Committee. The terms of reference of the Nomination Committee can be obtained from the Company upon request.

During the year ended 31 December 2019, two meetings were held by the Nomination Committee. The Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of all the independent non-executive Directors. The Nomination Committee also reviewed the qualifications of Mr. Li Guoxing and recommended his appointment as an independent non-executive Director.

Audit Committee

An audit committee was established by the Company on 3 December 2011 (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and approve the Group's financial reporting process, risk management and internal control systems. The Audit Committee comprises all the independent non-executive Directors, namely, Ms. Zhang Baixiang, Mr. Xu Yiliang, Mr. Li Guoxing (appointed on 5 December 2019) and Mr. Ng Wing Ka JP (resigned on 30 December 2019). Ms. Zhang Baixiang is the chairman of the Audit Committee.

During the year ended 31 December 2019, the Audit Committee had two meetings and performed the following work:

- Review of the annual financial results for the year ended 31 December 2018 and interim financial results for the six months ended 30 June 2019 and review of the accounting principles and practices adopted by the Group;
- Meeting and discussion with the external auditor on matters arising from the annual audit of the financial statements of the Group;
- Review of report prepared by the external auditor on matters in relation to the annual audit of the financial statements of the Group;
- Review and discussion with the external auditor on the internal control systems of the Group;
- Review the independence of RSM Hong Kong.

The Group's audited consolidated results for the year ended 31 December 2019 had been reviewed by the Audit Committee.

Training for Directors

During the year ended 31 December 2019, the Directors participated in the following trainings:

	Type of training
Executive Director:	
Mr. Zheng Yongxiang	A, B
Non-Executive Director:	
Mr. Zheng Hong	A, B
Independent Non-Executive Directors:	
Mr. Xu Yiliang	B
Ms. Zhang Baixiang	B
Mr. Li Guoxing	B

A: attending in house training sessions.

B: reading newspapers, journals and updates distributed by the Group relating to economy, general business and regulatory matter.

Company Secretary

Mr. Cheung Chi Fai Frank, the company secretary of the Company (the "**Company Secretary**"), is a full time employee of the Group. During the year ended 31 December 2019, Mr. Cheung had complied with Rule 3.29 of the Listing Rules in relation to taking of relevant professional training.

Board Diversity Policy

Pursuant to the CG Code, the Board adopted a board diversity policy on 23 August 2013. The Company recognises and embraces the benefits of diversity of its Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The Board will consider setting measurable objectives for achieving diversity on the Board at appropriate time.

Dividend Policy

The Company has adopted a dividend policy (the "**Dividend Policy**"). Under the Dividend Policy, in proposing dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and strike a balance between future growth and rewarding the Shareholders. The Company does not have any pre-determined payout ratio. The Board shall consider the following factors in proposing dividends: financial results and positions; cash flow position; gearing ratio, credit facilities and indebtedness level; business conditions and strategies; future operations and income; capital requirements and budgets; interests of the Shareholders; any restrictions on payment of dividends; and any other factor that the Board deems relevant. The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

D. FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial Reporting

The Directors acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with appropriate International Financial Reporting Standards. Appropriate accounting policies are being selected and applied consistently.

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2019, the Group had net current liabilities of approximately RMB399,456,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the Directors have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

(a) The banking facilities from the Group's bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:

  (i) Up to the date of the consolidated financial statements authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB82,300,000 currently included in current liabilities at 31 December 2019.

  (ii) Undrawn banking facilities amounting to approximately RMB22,395,000.

  (iii) Subsequent to the date of the reporting period, the Group has also successfully obtained new banking facilities of approximately RMB43,800,000.

  (iv) Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.

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

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

The responsibilities of the external auditor with respect to the audit of the consolidated financial statements are set out in the Independent Auditor's Report on pages 33 to 38.

Auditor's Remuneration

During the year ended 31 December 2019, the Group has incurred auditor's remuneration in respect of audit and non-audit services of approximately RMB933,000 and RMB265,000, respectively, which was paid or payable to the Company's auditor, RSM Hong Kong.

Risk Management and Internal Control

The Group's risk management and internal control systems are designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The systems are implemented to minimise risks to which the Group is exposed and can provide reasonable, but not absolute, assurance against material misstatement or loss rather than the elimination of risks associated with its business activities.

The Board acknowledges that it is responsible for maintaining adequate systems of risk management and internal control for the Group and the Directors had conducted annual review of their effectiveness during the year through the Audit Committee. Such review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board is satisfied that the Group's risk management and internal control systems including financial, operational and compliance controls and risk management functions as appropriate to the Group have been put in place and that no significant areas of improvement which are required to be brought to the attention of the Audit Committee have been revealed. The Board considers the risk management and internal control systems effective and adequate.

E. COMMUNICATIONS WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHT

The Board recognises the importance of effective communication with the Shareholders and investors. The Company communicates with the Shareholders and investors through various channels including publication of interim and annual reports, announcements, circulars and other corporate communications and publications available on the websites of the Stock Exchange and the Company.

The general meetings of the Company provide an opportunity for direct communication between the Board and the Shareholders. The Company encourages participation of the Shareholders through annual general meetings and other general meetings where the Shareholders meet and exchange views with the Board, and exercise their right to vote at meetings. The Company shall arrange notices of meetings and circulars containing details of proposed resolutions to be sent to the Shareholders no less than 20 business days before the meeting. At general meetings, separate resolutions are proposed on each substantial issue, including the election of individual Directors.

The Board always ensures that Shareholders' and investors' views are heard and understood, and welcomes their questions and concerns relating to the Group's management and governance. The Company's website provides email address and telephone number to enable the Shareholders to make any enquiries and concerns to the Board. Shareholders and investors may also at any time send their enquiries and concerns to the Board by addressing to the Company Secretary by post or by email. The contact details are set out in the "Corporate Information" section of this annual report.

Procedures for Shareholders to Convene an Extraordinary General Meeting and to put forward Proposals at General Meetings

Pursuant to Article 58 of the Articles, any one or more Members (as defined therein) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

Pursuant to Article 85 of the Articles, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a Notice (as defined therein) signed by a Member (as defined therein) (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that (if the Notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such Notice(s) shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2019.

Directors and Senior Management

EXECUTIVE DIRECTOR

Zheng Yongxiang (鄭永祥), aged 51, was appointed as an executive Director on 4 May 2011. Mr. Zheng Yongxiang has over 18 years of experience in the textile industry. He joined Jiangxi Jinyuan in 2005 as a general manager and is primarily responsible for formulating the policy and monitoring the operation of the Group. Prior to joining Jiangxi Jinyuan, Mr. Zheng Yongxiang served as the general manager of Shaoxing Gangtai Weaving Company Limited (紹興港泰針紡有限公司) from 2001 to 2005. He received the award of Outstanding Entrepreneur in 2007 (2007年度優秀企業家) from the Yichun Municipal Peoples' Government in 2008 and was awarded the Outstanding Architects of Yichun in the Reforming and Open Up for 30 Years (改革開放30年宜春市優秀建設者) in 2008 and the Best Ten Yichun Citizen (十佳宜春人) in 2009. He was the Chairman of Federation of Industry and Commerce of Fengxin County, Jiangxi Province (江西省奉新縣工商業聯合會) from 2012 to 2015. Mr. Zheng Yongxiang is a representative of Jiangi Fengxin County People's Congress (江西省奉新縣人民代表大會). Mr. Zheng Yongxiang graduated from the Open University of China (中央廣播電視大學) with a diploma of accounting (finance and accounting) in 2010. Mr. Zheng Yongxiang is the elder brother of Mr. Zheng Hong, the chairman and a non-executive Director of the Company.

NON-EXECUTIVE DIRECTOR

Zheng Hong (鄭洪), aged 44, was appointed as the chairman of the Company and an executive Director on 4 May 2011. Mr. Zheng Hong was re-designated as a non-executive Director on 5 December 2019. He has over 19 years of experience in the textile industry. He is one of the founders of the Group and was a director of Jiangxi Jinyuan, a subsidiary of the Group, from 2005 to 2017. He is a director of Jolly Success International Limited and Treasure Resources Corporation Limited, both of which are subsidiaries of the Company. He is the vice president (副會長) of the Chinese Cotton and Textile Industry Association (中國棉紡織行業協會), the vice supervisor (副主任) of the cotton trading committee of the Chinese Cotton and Textile Industry Association (中國棉紡織行業協會棉花貿易專業委員會) and a committee member of the Chinese Textile Products Technical Committee (中國棉紡織品技術委員會). Mr. Zheng Hong was awarded as the China Textile Outstanding Labour (全國紡織工業勞動模範) in 2010. He was elected as one of the Top Ten Outstanding Young Entrepreneurs of the Textile Industry in China (全國棉紡織產業十大傑出青年企業家) and the National Outstanding Young Textile Entrepreneur (全國優秀紡織青年企業家) in 2014 and 2017 respectively. He was awarded an MBA degree by Fudan University (復旦大學) in 2014 and he completed the Commercial Enterprises Information Strategy and Knowledge Management CEO Advanced Programme (工商企業信息戰略與知識管理總裁高級研修班) at Tsinghua University (清華大學) in 2005. Mr. Zheng Hong is the younger brother of Mr. Zheng Yongxiang, the executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhang Baixiang (張百香), aged 59, was appointed as an independent non-executive Director on 27 November 2014. Ms. Zhang has over 33 years of experience in corporate accounting and taxation. Ms. Zhang has been a corporate accountant in the PRC since 1993 and a PRC tax advisor since 1995. Ms. Zhang held various positions in the National Tax Bureau of the Fengxin County, Jiangxi Province (江西省奉新縣國稅局) including Accountant, Taxation Accountant and Chief Officer from 1982 to 2010. Ms. Zhang graduated with a diploma with specialisation in taxation from the Cadres' Academy of Finance and Management in Jiangxi (江西財經管理幹部學院) in 1987 and with a degree in Economic Management from the Distance Learning Academy of the Central Parties' School (中央黨校函授學院) in 2013.

Xu Yiliang (許貽良), aged 59, was appointed as an independent non-executive Director on 20 October 2016. Mr. Xu has over 38 years of experience in banking and finance. Mr. Xu has held various positions in the Fengxin County Branch of the People's Bank of China and various sales and management positions in the Industrial and Commercial Bank of China Limited, including Credit Analyst, Vice Section Head, Section Head, Vice President and President of the Fengxin County and Jingan County Branch and Credit Centre Supervisor of the Yichun City Branch from 1982 to 2016. Mr. Xu graduated with a diploma from the Academy of Banking in Jiangxi (江西省銀行學校) in 1982, a professional diploma from the City Finance School of the Staff University of the People's Bank of China in Jiangxi (江西省人民銀行職工大學) in 1987 and a degree in Economic Management from the Distance Learning Academy of the Central Parties' School (中央黨校函授學院) in 2001. He also obtained the qualifications of Senior Economist (高級經濟師) in 2012.

Li Guoxing (李國興), aged 49, has over 17 years of experience in legal practices in the PRC. Mr. Li was a lawyer at Fujian Huide Law Firm from 2003 to 2006 and at Fujian Haochen Law Firm from 2006 to 2010. Mr. Li joined Fujian Mintian Law Firm in 2010 and currently is a partner of the firm. Mr. Li graduated with a diploma in Legal Studies from Huaqiao University in 2000 and obtained his legal practice qualification from the PRC Justice Department in 2002. Mr. Li graduated with a degree in Legal Studies from Huaqiao University in 2007. From 1991 to 2002, Mr. Li held various technical positions in the China Civil Aviation Department in Fuzhou and Fuzhou International Airport after he graduated with a diploma in Aircraft Mechanical Engineering from the Shanghai Academy of the China Civil Aviation Department.

Directors and Senior Management

SENIOR MANAGEMENT

Liu Weimin (劉偉民), aged 50, is a deputy general manager of Jiangxi Jinyuan. Mr. Liu joined the Group in 2005 and is responsible for production technology management. He has over 29 years of experience in the textile industry. Prior to joining Jiangxi Jinyuan, Mr. Liu served as the head of production department in Fujian Mawei Development Zone Chuanlong Textile Company Limited (福建省馬尾開發區川隆紡織有限公司) from 1990 to 1993. From 1993 to 1995, he served as the head of production department of Fujian Jingwei Group Company Limited (福建經緯集團有限公司). From 1995 to 2004, he served as the factory manager and chief engineer of Jinjiang Fuxin Textile Company Limited (晉江福鑫紡織有限公司). Mr. Liu completed the internal auditor training in 2011 provided by Nan Chang Sino Enterprise Management Consulting Centre according to the ISO 9001: 2008 and GB/T24001–2004 (ISO14001:2004) Standard.

Chen Yu Han (陳宇含), aged 37, is a deputy general manager of Jiangxi Jinyuan. Mr. Chen joined Jiangxi Jinyuan in 2005 and is responsible for sales and management. He has over 14 years of experience in the textile industry. Mr. Chen graduated from the Jimei University (集美大學) in 2005 with a bachelor's degree in business management.

Cheung Chi Fai Frank (張志輝), aged 57, was appointed as the Company Secretary and chief financial officer of the Company in May 2011. He is also an independent non-executive director of Continental Holdings Limited (stock code: 513), a company listed in Hong Kong. He has over 28 years experience in accounting, finance and business management. He obtained an MBA from the University of Technology, Sydney in 1995 and a professional diploma in accountancy from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in 1985. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung was an independent non-executive director of K.H. Group Holdings Limited (stock code: 1557), a company listed in Hong Kong, from March 2016 to August 2018. He was a part-time tutor at the Open University of Hong Kong from March 2009 to July 2011. He was an executive director of Sun Innovation Holdings Limited (stock code: 547), a company listed in Hong Kong, from 2004 to 2007. He also acted as the chief financial officer of Sun Innovation Holdings Limited from 2007 to 2008. He was an independent director of LJ International Inc. (NASDAQ: JADE) from June to October 2007, a director of e-Lux (Hong Kong) Company Limited, a subsidiary of e-Lux Corporation (JASDAQ: 6811), from 2001 to 2003, in charge of the telecommunications value added services in Hong Kong, Taiwan and the PRC. He was the group financial controller and a director of New Media Corporation, a subsidiary of e-New Media Company Limited (stock code: 128), a company listed in Hong Kong, from 1995 to 1999 and 1999 to 2000, respectively.

Independent Auditor's Report

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

OPINION

We have audited the consolidated financial statements of China Weaving Materials Holdings Limited ("**the Company**") and its subsidiaries (the "**Group**") set out on pages 39 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB399,456,000 as at 31 December 2019. As stated in Note 2, this event or condition indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, the key audit matters we identified are:

1. Impairment assessment of goodwill

2. Impairment assessment of property, plant and equipment and right-of-use assets

Key Audit Matter	**How our audit addressed the Key Audit Matter**
Impairment assessment of goodwill *Refer to Note 22 to the consolidated financial statements* As at 31 December 2019, included in the Group's consolidated statement of financial position was goodwill with carrying amount of approximately RMB20,617,000 arising from the acquisition of 江西華春色紡科技發展有限公司 (for identification purpose, Jiangxi Huachun Color Spinning Technology Development Co., Ltd.). Management is required to undertake goodwill impairment review at least annually. The recoverable amount of the cash-generating unit ("**CGU**") to which the goodwill is allocated is based on the value in use of the CGU. Management has engaged an independent external valuer to assist in the determination of the value in use of the CGU. The impairment assessment is a judgemental process, requiring estimates in respect of the forecast future cash flows associated with the CGU, including the growth rate for revenues and costs, and the discount rate. An impairment loss on goodwill of approximately RMB14,212,000 was recorded in the year 2017 to reduce the CGU carrying amount to its recoverable amount. No impairment loss on goodwill was recorded in the current year as the CGU recoverable amount exceeded its carrying amount.	Our procedures in relation to this matter included: – Evaluating the expertise and independence of the external valuer; – Challenging the reasonableness of the assumptions underlying the cash flow forecasts in the valuation model, with reference to the historical performance of the CGU and our understanding of the business; – Working with our in-house valuation specialists to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model, and the reasonableness of the components comprising the discount rate compared to market data; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

KEY AUDIT MATTERS (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of property, plant and equipment and right-of-use assets *Refer to Notes 19 and 21 to the consolidated financial statements* As at 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets belong to the CGU of manufacturing and trading of polyester stable fibres, were approximately RMB72,077,000 and RMB7,926,000 respectively. Due to the operating loss of the Group's manufacturing and trading of polyester stable fibres activities and worsening of global economic outlook, management concluded there were indications of impairment and performed an impairment assessment on these assets as at 31 December 2019 to determine the recoverable amount of the CGU to which the assets belong based on value in use of the CGU. Management has engaged an independent external valuer to assist in the determination of the value in use of the CGU. The impairment assessment is a judgemental process, requiring estimates in respect of the forecast future cash flows associated with the CGU, including the growth rate for revenues and costs, and the discount rate. Impairment losses on property, plant and equipment and right-of-use assets of approximately RMB44,120,000 and RMB426,000 respectively were recorded during the year to reduce the carrying amount of the CGU to its recoverable amount.	Our procedures in relation to this matter included: – Reviewing management's assessment of the indications of impairment; – Evaluating the expertise and independence of the external valuer; – Challenging the reasonableness of the assumptions underlying the cash flow forecasts in the valuation model, with reference to the historical performance of the CGU and our understanding of the business; – Working with our in-house valuation specialists to review the appropriateness of the valuation approach and methodology, the accuracy of the calculations in the valuation model, and the reasonableness of the components comprising the discount rate compared to market data; and – Reviewing the appropriateness of the disclosure in the consolidated financial statements.

OTHER INFORMATION

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report (Continued)

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Yuk Fung Cora.

RSM Hong Kong
Certified Public Accountants
Hong Kong

25 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Revenue	9	**1,796,390**	1,836,161
Cost of sales		**(1,680,266)**	(1,640,190)
Gross profit		**116,124**	195,971
Other income	10	**28,641**	31,231
Other gains and losses	11	**260**	(2,723)
Distribution and selling expenses		**(28,354)**	(25,752)
Administrative expenses		**(55,645)**	(53,711)
Impairment loss on property, plant and equipment	19	**(44,120)**	–
Impairment loss on right-of-use assets	21	**(426)**	–
Profit from operations		**16,480**	145,016
Finance costs	12	**(32,690)**	(35,665)
(Loss)/Profit before tax		**(16,210)**	109,351
Income tax expense	13	**(4,100)**	(29,319)
(Loss)/Profit and total comprehensive income for the year	14	**(20,310)**	80,032
(Loss)/Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**(1,405)**	80,309
Non-controlling interests		**(18,905)**	(277)
		(20,310)	80,032
(Loss)/Earnings per share	18		
– Basic		**(RMB0.11 cents)**	RMB6.41 cents
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

At 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	19	**951,945**	1,082,457
Prepaid lease payments	20	**–**	42,364
Right-of-use assets	21	**80,668**	–
Deposits on acquisition of property, plant and equipment		**101**	2,760
Goodwill	22	**20,617**	20,617
		1,053,331	1,148,198
Current assets			
Inventories	23	**205,787**	249,100
Trade and other receivables	24	**47,852**	31,724
Bills receivable	25	**10,217**	8,800
Prepaid lease payments	20	**–**	1,079
Pledged bank deposits	26	**33,807**	69,791
Restricted bank deposit	26	**500**	500
Cash and bank balances	26	**135,585**	47,548
		433,748	408,542
Current liabilities			
Trade and other payables	27	**285,069**	214,477
Contract liabilities	28	**16,920**	28,017
Bills payable	29	**81,146**	173,780
Deferred income	30	**227**	227
Lease liabilities	31	**21,605**	–
Finance lease payables	31	**–**	25,064
Bank and other borrowings	32	**370,591**	365,923
Entrusted loan payable	33	**50,000**	–
Current tax liabilities		**7,646**	8,688
		833,204	816,176
Net current liabilities		**(399,456)**	(407,634)
Total assets less current liabilities		**653,875**	740,564

Consolidated Statement of Financial Position (Continued)

At 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Deferred income	30	**7,256**	7,483
Lease liabilities	31	**2,652**	–
Bank and other borrowings	32	**44,576**	24,176
Entrusted loan payable	33	**–**	50,000
Deferred tax liabilities	34	**33,203**	37,384
		87,687	119,043
Net assets		**566,188**	621,521
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	35	**101,989**	101,989
Reserves		**466,920**	490,170
		568,909	592,159
Non-controlling interests		**(2,721)**	29,362
Total equity		**566,188**	621,521

Approved by the Board of Directors on 25 March 2020 and are signed on its behalf by:

Zheng Hong
DIRECTOR

Zheng Yongxiang
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000 (Note 45(b)(i))	PRC statutory reserves RMB'000 (Note 45(b)(ii))	Special reserve RMB'000 (Note 45(b)(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	101,989	73,903	86,334	148,739	100,885	511,850	29,639	541,489
(Loss)/Profit and total comprehensive income for the year	–	–	–	–	80,309	80,309	(277)	80,032
Transfer	–	–	10,779	–	(10,779)	–	–	–
At 31 December 2018 and at 1 January 2019	101,989	73,903	97,113	148,739	170,415	592,159	29,362	621,521
Loss and total comprehensive income for the year	–	–	–	–	(1,405)	(1,405)	(18,905)	(20,310)
Acquisition of additional interest in a subsidiary (Note 39(d))	–	–	–	–	(5,022)	(5,022)	(13,178)	(18,200)
Transfer	–	–	17,395	–	(17,395)	–	–	–
Dividends (Note 17)	–	–	–	–	(16,823)	(16,823)	–	(16,823)
At 31 December 2019	**101,989**	**73,903**	**114,508**	**148,739**	**129,770**	**568,909**	**(2,721)**	**566,188**

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/Profit before tax	**(16,210)**	109,351
Adjustments for:		
Amortisation of deferred income	**(227)**	(227)
Amortisation of prepaid lease payments	**–**	1,077
Amortisation of intangible asset	**–**	17
Depreciation of property, plant and equipment	**63,498**	60,879
Depreciation of right-of-use assets	**5,069**	–
Loss on disposal of property, plant and equipment	**247**	769
Allowance for inventories	**3,202**	–
Impairment loss on property, plant and equipment	**44,120**	–
Impairment loss on right-of-use assets	**426**	–
Interest income	**(1,433)**	(959)
Interest expenses	**32,690**	35,202
Finance lease charges	**–**	463
Net foreign exchange loss	**480**	1,616
Operating cash flows before movements in working capital	**131,862**	208,188
Decrease/(Increase) in inventories	**40,111**	(4,307)
(Increase)/Decrease in trade and other receivables	**(16,108)**	2,399
(Increase)/Decrease in bills receivable	**(1,417)**	13,034
Increase in trade and other payables	**70,557**	4,874
(Decrease)/Increase in contract liabilities	**(11,097)**	28,017
(Decrease)/Increase in bills payable	**(92,634)**	71,380
Cash generated from operations	**121,274**	323,585
Interest paid	**(31,721)**	(35,202)
Interest on lease liabilities	**(969)**	–
Finance lease charges paid	–	(463)
Income tax paid, net	**(9,323)**	(9,050)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**79,261**	278,870

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(88,857)**	(154,845)
Withdrawal of pledged bank deposits	**124,841**	131,330
Interest received	**1,433**	959
Addition of prepaid lease payments	**–**	(166)
Purchase of property, plant and equipment	**(8,110)**	(48,244)
Proceeds from disposal of property, plant and equipment	**407**	1,982
Deposits paid for acquisition of property, plant and equipment	**(101)**	(2,760)
Payments for rental deposits	**(20)**	–
Interest paid for consideration payable for the acquisition of a subsidiary	**–**	(3,600)
Acquisition of additional interest in a subsidiary	**(18,200)**	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	**11,393**	(75,344)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance from a related company	**93,000**	139,000
Repayment to a related company	**(93,000)**	(261,000)
Dividend paid to the owners of the Company	**(16,788)**	–
Proceeds from bank and other borrowings	**452,420**	370,250
Repayment of bank and other borrowings	**(430,604)**	(508,496)
Proceed from entrusted loan	**50,000**	50,000
Repayment of entrusted loan	**(50,000)**	–
Principal element of lease payments (2018: repayment of finance lease payables)	**(7,645)**	(3,028)
Decrease in restricted bank deposit	**–**	(500)
NET CASH USED IN FINANCING ACTIVITIES	**(2,617)**	(213,774)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**88,037**	(10,248)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**47,548**	57,796
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**135,585**	47,548
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**135,585**	47,548

1. GENERAL INFORMATION

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

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

These consolidated financial statements for the year ended 31 December 2019 are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). IFRSs comprise individual International Financial Reporting Standards ("**IFRS**"); International Accounting Standards ("**IAS**"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. BASIS OF PREPARATION (Continued)

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2019, the Group had net current liabilities of approximately RMB399,456,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis as the directors have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

(a) The banking facilities from the Group's bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:

  (i) Up to the date of the consolidated financial statements authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB82,300,000 currently included in current liabilities at 31 December 2019.

  (ii) Undrawn banking facilities amounting to approximately RMB22,395,000.

  (iii) Subsequent to the date of the reporting period, the Group has also successfully obtained new banking facilities of approximately RMB43,800,000.

  (iv) Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.

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

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

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

3. ADOPTION OF NEW AND REVISED IFRSs

(a) Application of new and revised IFRSs

The IASB has issued a new IFRS, IFRS 16 Leases ("**IFRS 16**"), and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, none of the developments have had a material effect on how the Group's financial performance and position for the current and prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16

IFRS 16 supersedes IAS 17 Leases ("**IAS 17**"), and the related interpretations, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach under which the comparative information has not been restated and continues to be reported under IAS 17. The reclassification arising from IFRS 16 is recognised in the opening balance sheet on 1 January 2019. There is no impact on the opening balance of equity.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 16 (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt.

To ease the transition to IFRS 16, the Group applied the practical expedient for not recognising right-of-use assets and lease liabilities for leases with less than 12 months as of the date of initial application of IFRS 16.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes ("**IAS 12**") requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 16 (Continued)

(ii) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in Note 37 at 31 December 2018 to the opening balance for lease liabilities recognised at 1 January 2019:

	RMB'000
Operating lease commitments disclosed at 31 December 2018	**88**
Less: Commitments relating to a lease exempt from capitalisation (short-term lease with remaining lease term ending before 31 December 2019)	**(88)**
Add: Finance lease liabilities recognised at 31 December 2018	**25,064**
Lease liabilities recognised at 1 January 2019 (shown under current liabilities)	**25,064**

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "Finance leases payables", these amounts are included within "Lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 16 (Continued)

(ii) Lessee accounting and transitional impact (Continued)

The change in accounting policies affected the following items on the consolidated statement of financial position of the Group (increase/(decrease)) at 1 January 2019 is summarised below.

	Note	At 1 January 2019 RMB'000
Assets		
Property, plant and equipment	(1)	**(36,362)**
Prepaid lease payments	(2)	**(43,443)**
Right-of-use assets		**79,805**
		–
Liabilities		
Finance lease payables	(3)	**(25,064)**
Lease liabilities	(3)	**25,064**
		–

Note:

(1) In relation to assets previously under finance leases, the Group recategorises the carrying amount of the relevant assets which were still leased at 1 January 2019 amounting to approximately RMB36,362,000 as right-of-use assets.

(2) Upfront payments for leasehold land in the PRC own used properties were classified as prepaid lease payments at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately RMB1,079,000 and RMB42,364,000 respectively were classified to right-of-use assets.

(3) The Group reclassified the finance lease payables of approximately RMB25,064,000 to lease liabilities as current liabilities at 1 January 2019.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 16 (Continued)

(iii) Impact of the financial performance and cash flows of the Group

Under IFRS 16, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element (Note 39(b)). These elements are classified as financing cash outflows and operating cash outflows respectively. Total cash flows are unaffected.

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial performance and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply in 2019, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 RMB'000	Add back: IFRS 16 depreciation and interest expenses RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial performance for year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**16,480**	**460**	**(509)**	**16,431**	145,016
Finance costs	**(32,690)**	**79**	**–**	**(32,611)**	(35,665)
(Loss)/Profit before tax	**(16,210)**	**539**	**(509)**	**(16,180)**	109,351
(Loss)/Profit for the year	**(20,310)**	**539**	**(509)**	**(20,280)**	80,032

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

(a) Application of new and revised IFRSs (Continued)

IFRS 16 (Continued)

(iii) Impact of the financial performance and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under IFRS 16 RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated statement of cash flows for year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	121,147	(509)	120,638	323,585
Interest on lease liabilities	(969)	79	(890)	(463)
Net cash generated from operating activities	79,261	(430)	78,831	278,870
Principal element of lease payments	(7,645)	430	(7,215)	(3,028)
Net cash used in financing activities	(2,617)	430	(2,187)	(213,774)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

3. ADOPTION OF NEW AND REVISED IFRSs (Continued)

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

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2019. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3 Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020

The Group is in the process of making an assessment of what the impact of these new and revised IFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation

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

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The consideration transferred in a business combination is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and any contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the sum of the consideration transferred over the Group's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the sum of the consideration transferred is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Group.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the sum of the consideration transferred in a business combination to calculate the goodwill.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**") or groups of CGUs that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to its recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	10 - 30 years
Leasehold improvement	3 years
Plant and machinery	3 - 20 years
Office equipment	3 - 10 years
Motor vehicles	4 - 10 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses, if any. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) The Group as a lessee

Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leases (Continued)

(i) The Group as a lessee (Continued)

Policy applicable from 1 January 2019 (Continued)

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase options, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment losses, if any, are transferred to property, plant and equipment.

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("**IFRS 9**") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

Policy prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

Where the Group acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which wrote off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Group would obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Leases (Continued)

(i) The Group as a lessee (Continued)

Policy prior to 1 January 2019 (Continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in profit or loss as an integral part of the aggregate net lease payments made.

(ii) The Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the 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 (other than financial assets and financial liabilities at fair value through profit or loss ("**FVTPL**") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset 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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets

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. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments

Debt instruments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the instrument is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the instrument is calculated using the effective interest method. Typically trade receivables, other receivables, cash and bank balances are classified in this category.

– Fair value through other comprehensive income ("**FVTOCI**") – recycling, if the contractual cash flows of the instrument comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses ("**ECL**"), interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the instrument is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVTPL if the instrument does not meet the criteria for being measured at amortised cost or FVTOCI (recycling). Changes in the fair value of the instrument (including interest) are recognised in profit or loss. This category includes bills receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for the ECL.

(l) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Financial guarantee contract

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the ECL model under IFRS 9; and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers ("**IFRS 15**").

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(o) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Revenue and other income

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sales of manufactured goods and trading of raw materials is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a mandatory provident fund scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the "**Ordinance**") for all qualifying employees in Hong Kong. The Group's contributions to the MPF Scheme are calculated at 5% of the salaries and wages subject to a monthly maximum amount specified in the Ordinance per employee and vest fully with employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries established in the PRC are members of a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of the employees' basic salaries and wages to the central pension scheme to fund the retirement benefits. The local municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of these subsidiaries. The only obligation of these subsidiaries with respect to the central pension scheme is to meet the required contributions under the scheme.

The retirement benefit costs charged to profit or loss represent contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

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

(t) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Taxation (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(v) Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are reviewed for impairment annually and whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

The carrying amounts of other non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the CGU.

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

Impairment losses for CGUs are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less cost of disposal (if measurable); its value in use (if determinable); and zero. If this results in an amount being allocated to an asset less than its pro-rata share of the impairment loss, the amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata amongst the other assets of the CGU. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Impairment of financial assets

The Group recognises a loss allowance for ECL on its assets carried at amortised cost, such as trade and other receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. Trade receivables have been grouped based on shared credit risk characteristics. Vast majority of the customers of the Group are involved in clothing or textile industry and located in the PRC. The expected loss rate for the PRC textile industry is a reasonable approximation of the loss rate for trade receivables.

The expected loss rate is based on the industry probability of default and recovery rate for PRC textile industry. The assessment of the expected loss rate is adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represent the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represent the portion of lifetime ECL that are expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Impairment of financial assets (Continued)

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

– significant deterioration in external market indicators of credit risk for a particular financial instrument;

– existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

– an actual or expected significant deterioration in the operating results of the debtor;

– significant increases in credit risk on other financial instruments of the same debtor;

– an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

(i) The financial instrument has a low risk of default,

(ii) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and

(iii) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Impairment of financial assets (Continued)

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

– when there is a breach of financial covenants by the counterparty; or

– information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

– significant financial difficulty of the issuer or the counterparty;

– a breach of contract, such as a default or past due event;

– the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

– it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures. Any recoveries made are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Impairment of financial assets (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL are estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(x) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(y) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimations, which are dealt with below).

Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the factors considered by the directors as detailed in Note 2.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, approximately RMB4,100,000 (2018: RMB29,319,000) of income tax was charged to profit or loss based on the estimated profit from operations.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(b) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and subsequent accumulated impairment losses, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (i) whether an event has occurred or any indicators that may affect the asset value; (ii) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (iii) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belong. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amount of property, plant and equipment and right-of-use assets at 31 December 2019 were approximately RMB951,945,000 (2018: RMB1,082,457,000) and RMB80,668,000 (2018: nil) respectively.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGU 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 CGU and a suitable discount rate in order to calculate the present value. The carrying amount of goodwill at the end of the reporting period was approximately RMB20,617,000 (2018: RMB20,617,000).

(d) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses or deductible temporary differences can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Details of the Group's deferred tax are set out in Note 34.

(e) Net realisable value of inventories

Allowance for inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance for inventories of approximately RMB3,202,000 (2018: nil) was made for the year ended 31 December 2019.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has certain exposure to foreign currency risk as some of its business transactions, assets and liabilities are denominated in currencies other than the functional currencies of the Group entities, including Hong Kong dollars ("**HK$**") and United States dollars ("**US$**"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2019, if RMB had weakened 5 per cent against US$ with all other variables held constant, consolidated loss after tax would have been approximately RMB208,000 higher (2018: consolidated profit after tax would have been approximately RMB171,000 higher), arising mainly as a result of the foreign exchange loss on other borrowings, trade payables and bills payable (2018: foreign exchange gain on cash and bank balances and trade receivables) denominated in US$. If RMB had strengthened 5 per cent against US$ with all other variables held constant, consolidated loss after tax would have been approximately RMB208,000 lower (2018: consolidated profit after tax would have been approximately RMB171,000 lower), arising mainly as a result of the foreign exchange gain on other borrowings, trade payables and bills payable (2018: foreign exchange loss on cash and bank balances and trade receivables) denominated in US$.

At 31 December 2019, if RMB had weakened 5 per cent against HK$ with all other variables held constant, consolidated loss after tax would have been approximately RMB1,547,000 higher (2018: consolidated profit after tax would have been approximately RMB1,320,000 lower), arising mainly as a result of the foreign exchange loss on bank borrowings, lease liabilities and other payables (2018: bank borrowings, finance lease payables and other payables) denominated in HK$. If RMB had strengthened 5 per cent against HK$ with all other variables held constant, consolidated loss after tax would have been approximately RMB1,547,000 lower (2018: consolidated profit after tax would have been approximately RMB1,320,000 higher), arising mainly as a result of the foreign exchange gain on bank borrowings, lease liabilities and other payables (2018: bank borrowings, finance lease payables and other payables) denominated in HK$.

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's credit risk is primarily attributable to its trade and other receivables, bills receivable, pledged bank deposits, restricted bank deposit and cash and bank balances.

The Group's exposure to credit risk arising from bills receivable, restricted bank deposit, pledged bank deposit and bank balances is limited because the counterparties are well-established banks in Hong Kong and the PRC. The credit quality of bills receivable, bank deposits and balances has been assessed by reference to external credit ratings or to historical information about the counterparty default rates. The existing counterparties do not have defaults in the past. Therefore, expected credit loss rate is assessed to be close to zero.

Trade receivables

The Group has concentration of credit risk on the Group's trade receivables as 100% (2018: 99%) of the customers are involved in clothing or textile industry and located in the PRC.

In order to minimise the credit risk, the directors have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. Depending on the customer's credit worthiness and historical relationship with the Group, the Group may require cash payment before delivery of products.

The Group grants extended credit terms to customers with overall creditworthiness, as determined by its credit assessment. For customers to whom credit terms are extended, the Group assesses a number of factors to determine whether collection from them is reasonably assured, including past transaction history with them and their creditworthiness. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of lifetime ECL provision for all trade receivables.

The Group has assessed that the expected loss rate for trade receivables was insignificant. Thus, no loss allowance provision for trade receivables was recognised at 31 December 2019.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk

In preparing the consolidated financial statements, the directors of the Group have given careful consideration to the future liquidity and going concern of the Group in light of the fact that the Group's current liabilities exceeded its current assets by approximately RMB399,456,000 (2018: RMB407,634,000) at 31 December 2019. Up to the date of these consolidated financial statements were authorised for issue, certain banks agreed to renew bank loans amounting to approximately RMB82,300,000, the Group had undrawn banking facilities of approximately RMB22,395,000 and subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB43,800,000. The Group relies on bank borrowings as significant sources of liquidity. The directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the banking facilities already in place and accordingly, the consolidated financial statements have been prepared on a going concern basis.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both interest and principal cash flows.

Specifically, for bank and other borrowings and lease liabilities (2018: bank borrowings and finance lease payables) which contain a repayment on demand clause that can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the banks were to invoke its unconditional rights to call the loans with immediate effect.

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2019				
Trade and other payables	**271,988**	**–**	**–**	**271,988**
Bills payable	**81,146**	**–**	**–**	**81,146**
Lease liabilities	**21,771**	**1,611**	**1,132**	**24,514**
Bank and other borrowings	**384,502**	**13,079**	**35,036**	**432,617**
Entrusted loan payable	**52,400**	**–**	**–**	**52,400**
	811,807	**14,690**	**36,168**	**862,665**
At 31 December 2018				
Trade and other payables	201,652	–	–	201,652
Bills payable	173,780	–	–	173,780
Finance lease payables	25,064	–	–	25,064
Bank borrowings	375,747	28,690	3,758	408,195
Entrusted loan payable	3,000	52,408	–	55,408
	779,243	81,098	3,758	864,099

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

The table below summaries the Group's remaining contractual maturity for its non-derivative financial liabilities based on agreed schedule repayments set out in the loan agreements. Taking into account the Group's financial position, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank and other borrowings and lease liabilities (2018: bank borrowings and finance lease payables) will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	On demand or less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total undiscounted cash flows RMB'000
At 31 December 2019				
Trade and other payables	**271,988**	**–**	**–**	**271,988**
Bills payable	**81,146**	**–**	**–**	**81,146**
Lease liabilities	**8,807**	**7,519**	**9,785**	**26,111**
Bank and other borrowings	**380,402**	**17,708**	**35,036**	**433,146**
Entrusted loan payable	**52,400**	**–**	**–**	**52,400**
	794,743	**25,227**	**44,821**	**864,791**
At 31 December 2018				
Trade and other payables	201,652	–	–	201,652
Bills payable	173,780	–	–	173,780
Finance lease payables	6,724	6,532	14,242	27,498
Bank borrowings	371,752	30,944	5,920	408,616
Entrusted loan payable	3,000	52,408	–	55,408
	756,908	89,884	20,162	866,954

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank and other borrowings and entrusted loan payable.

The Group's exposure to cash flow interest rate risk relates primarily to variable rate bank and other borrowings and lease liabilities (2018: bank borrowings and finance lease payables) which is offset by bank deposits held at variable rates varied with the then prevailing market conditions.

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

	2019 RMB'000	2018 RMB'000
Fixed rate financial liabilities		
Bank and other borrowings	**(284,300)**	(353,420)
Entrusted loan payable	**(50,000)**	(50,000)
Variable rate financial assets/(liabilities)		
Bank deposits	**168,152**	117,281
Bank and other borrowings	**(130,867)**	(36,679)
Finance lease payables	**–**	(25,064)
Lease liabilities	**(24,257)**	–

The sensitivity analysis below has been determined based on the exposure to cash flow interest rate risk on the Group's variable rate bank and other borrowings and lease liabilities (2018: bank borrowings and finance lease payables), offset by bank deposits held at variable rates, at the end of the reporting period and prepared assuming the amounts of bank deposits, bank and other borrowings and lease liabilities (2018: bank deposits, bank borrowings and finance lease payables) outstanding at the end of reporting period were outstanding for the whole year.

At 31 December 2019, if interest rates had been 50 basis points (2018: 50 basis points) higher, with all other variables held constant, consolidated loss after tax would have been decreased by approximately RMB69,000 (2018: consolidated profit after tax would have been increased by approximately RMB210,000). If the interest rate had been 50 basis points (2018: 50 basis points) lower or reduced to nil, whichever is higher, with all other variables held constant, consolidated loss after tax would have been decreased by approximately RMB100,000 (2018: consolidated profit after tax would have been decreased by approximately RMB155,000). The Group currently does not have any interest rate hedging policy in relation to interest rate risk. The directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

6. FINANCIAL RISK MANAGEMENT (Continued)

(e) Categories of financial instruments at 31 December 2019

	2019 RMB'000	2018 RMB'000
Financial assets:		
Financial assets at amortised cost	**197,084**	139,268
Financial assets at FVTPL - bills receivable	**10,217**	8,800
Financial liabilities:		
Financial liabilities at amortised cost	**818,301**	815,532

(f) Fair values

Management of the Group considers that the carrying amounts of financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that 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.

7. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosure of level in fair value hierarchy at 31 December 2019:

Description	Fair value measurement using Level 2 2019 RMB'000	2018 RMB'000
Recurring fair value measurements:		
Financial assets		
Financial assets at FVTPL – bills receivable	**10,217**	8,800

(b) Disclosure of valuation techniques and key inputs used in fair value measurements at 31 December 2019:

Level 2 fair value measurements

Description	Valuation technique	Key input	Fair value 2019 RMB'000	2018 RMB'000
Bills receivable	Discounted cash flows	Discount rate	**10,217**	8,800

8. SEGMENT INFORMATION

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

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

During the year ended 31 December 2019, 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.

8. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss:

	Yarns RMB'000	Staple Fibres RMB'000	Total RMB'000
Year ended 31 December 2019			
Revenue from external customers	**1,687,244**	**109,146**	**1,796,390**
Intersegment revenue	**–**	**37,495**	**37,495**
Interest income	**1,381**	**44**	**1,425**
Interest expense	**(28,437)**	**(4,252)**	**(32,689)**
Depreciation	**(61,355)**	**(6,681)**	**(68,036)**
Other material non-cash items:			
Impairment loss on property, plant and equipment	**–**	**(44,120)**	**(44,120)**
Impairment loss on right-of-use assets	**–**	**(426)**	**(426)**
Profit/(Loss) of reportable segments	**50,196**	**(71,920)**	**(21,724)**
Year ended 31 December 2018			
Revenue from external customers	1,726,879	109,282	1,836,161
Intersegment revenue	–	68,494	68,494
Interest income	941	12	953
Interest expense	(32,874)	(2,328)	(35,202)
Depreciation and amortisation	(57,105)	(4,798)	(61,903)
Profit/(Loss) of reportable segments	101,332	(814)	100,518

8. SEGMENT INFORMATION (Continued)

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

	2019 RMB'000	2018 RMB'000
Revenue		
Total revenue of reportable segments	**1,833,885**	1,904,655
Elimination of intersegment revenue	**(37,495)**	(68,494)
Group's revenue	**1,796,390**	1,836,161
Profit or loss		
Total (loss)/profit of reportable segments	**(21,724)**	100,518
Elimination of intersegment losses	**120**	50
Adjusted for income in relation to government grants	**8,507**	10,860
Unallocated expense, net:		
Other income, gains and losses	**(820)**	(165)
Administrative and other expenses	**(2,293)**	(1,912)
Income tax expense	**(4,100)**	(29,319)
Group's (loss)/profit for the year	**(20,310)**	80,032

Geographical information

Over 99% (2018: 99%) of the Group's non-current assets were located in the PRC, and accordingly, no related geographical information of non-current assets is presented.

Over 99% (2018: 99%) of the Group's revenue were derived from sales of yarns and polyester staple fibres in the PRC based on where goods are delivered to, which are also same as the location of customers.

Information about major customers

No revenue from single customer contributed over 10% of the total sales of the Group in the years ended 31 December 2019 and 2018.

9. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials. The Group derives revenue from transfer of goods at a point in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Sales of yarns	**1,687,244**	1,726,879
Sales of staple fibres	**109,146**	109,282
	1,796,390	1,836,161

10. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Interest income	**1,433**	959
Government grants (Note)	**8,507**	10,860
Income from scrap sales	**17,658**	18,578
Rental income	**854**	798
Others	**189**	36
	28,641	31,231

Note: For the year ended 31 December 2019, government grants mainly represented subsidies of approximately RMB8,280,000 (2018: RMB10,633,000) received by the Group for rewarding the Group's past contribution to Fengxin County, Jiangxi Province. The grants were accounted for as financial support with no future related costs expected to be incurred nor related to any assets. As such, an amount of approximately RMB8,280,000 (2018: RMB10,633,000) was recognised in profit or loss when the grants were received. The remaining approximately RMB227,000 (2018: RMB227,000) were related to government grants for the refund of the construction cost of building premises, purchase cost of land use rights and deed tax of the land use rights. The refund of purchase cost of land use rights and deed tax were amortised on a straight-line basis over the life of the corresponding land use rights. The refund of construction cost of building premises were amortised on a straight-line basis over the estimated useful lives of building premises upon completion of the construction.

11. OTHER GAINS AND LOSSES

	2019	2018
	RMB'000	RMB'000
Net foreign exchange loss	**(662)**	(2,151)
Loss on disposal of property, plant and equipment	**(247)**	(769)
Fair value gain on financial assets at FVTPL (Note)	**1,169**	–
Others	**–**	197
	260	(2,723)

Note: The Group entered into structured deposits with banks and the return of these investments is not guaranteed. The structured deposits were mandatorily measured at FVTPL.

12. FINANCE COSTS

	2019	2018
	RMB'000	RMB'000
Interest on bank and other borrowings	**27,389**	35,077
Interest on entrusted loans	**4,332**	125
Interest on lease liabilities	**969**	–
Finance lease charges	**–**	463
	32,690	35,665

13. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the year	**9,942**	9,594
Over-provision in prior year	**(1,661)**	(318)
	8,281	9,276
Deferred tax (Note 34)		
Origination and reversal of temporary differences	**5,080**	20,043
Impact of change in tax rate	**(9,261)**	–
	(4,181)	20,043
Total	**4,100**	29,319

No provision for Hong Kong Profits Tax for the years ended 31 December 2019 and 2018 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

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

Jiangxi Jinyuan, the Company's subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2014. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2019 and 2018.

Huachun, the Company's subsidiary, was subjected to the EIT tax rate at 25% for the year ended 31 December 2018. During the year ended 31 December 2019, Huachun has been recognised as a state-encouraged high-new technology enterprise. As such, Huachun is entitled to a preferential tax rate of 15% in 2019, 2020 and 2021.

13. INCOME TAX EXPENSE (Continued)

Xinyuan, the Company's subsidiary, is subject to the EIT tax rate at 25%.

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

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

	2019 **RMB'000**	2018 RMB'000
(Loss)/Profit before tax	**(16,210)**	109,351
Tax at the applicable rates in the jurisdictions concerned	**(9,721)**	19,092
Tax effect of income not taxable for tax purpose	**(105)**	(48)
Tax effect of expenses not deductible for tax purpose	**4,347**	1,874
Tax effect of temporary differences in prior years recognised in current year	**–**	15,073
Tax effect of temporary differences not recognised	**12,245**	118
Tax effect of unused tax losses not recognised	**6,221**	994
Tax effect of utilisation of tax losses not previously recognised	**–**	(4,167)
Tax effect of recognition of tax losses not previously recognised	**–**	(5,918)
Over-provision in prior year	**(1,661)**	(318)
Withholding tax on dividend declared by Jiangxi Jinyuan	**1,500**	–
Withholding tax on undistributed profits of Jiangxi Jinyuan	**1,819**	2,166
Withholding tax arising from interest income	**–**	83
Remeasurement of deferred tax – change in tax rate	**(9,261)**	–
Others	**(1,284)**	370
Income tax expense for the year	**4,100**	29,319

14. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging the following:

	2019 RMB'000	2018 RMB'000
Auditor's remuneration		
– Audit	**933**	887
– Others	**265**	257
	1,198	1,144
Rental expense relating to short-term lease	**88**	–
Operating lease charges for leases previously classified as operating leases under IAS 17		
– Amortisation of prepaid lease payments	**–**	1,077
– Land and buildings	**–**	507
Amortisation of intangible asset (included in administrative expenses)	**–**	17
Cost of inventories sold	**1,680,266**	1,640,190
Allowance for inventories (included in cost of inventories sold)	**3,202**	–
Depreciation on property, plant and equipment	**63,498**	60,879
Depreciation on right-of-use assets	**5,069**	–

Cost of inventories sold includes employee benefits expense and depreciation of approximately RMB183,738,000 (2018: RMB169,016,000) and RMB58,046,000 (2018: RMB52,120,000) respectively, which are included in the amounts disclosed in Note 15 and separately above.

15. EMPLOYEE BENEFITS EXPENSE

	2019 RMB'000	2018 RMB'000
Employee benefits expense (excluding directors' emoluments):		
Salaries, bonuses and allowances	**181,066**	171,348
Retirement benefits scheme contributions	**18,739**	11,428
	199,805	182,776

Five highest paid individuals:

The five highest paid individuals in the Group during the year included two (2018: two) directors (one director is also the Company's chief executive) whose emoluments are reflected in the analysis presented in Note 16. The emoluments of the remaining three (2018: three) individuals are set out below:

	2019 RMB'000	2018 RMB'000
Basic salaries and allowances	**1,353**	1,305
Retirement benefits scheme contributions	**44**	37
	1,397	1,342

	2019	2018
The emoluments fell within the following band:		
Nil to HK$1,000,000	**3**	3

16. BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' emoluments

The emoluments paid to or receivable by each of the directors and the chief executive whether of the Company or its subsidiary undertaking are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of directors					
Executive directors					
– Mr. Zheng Yongxiang	–	1,061	–	22	1,083
– Mr. Zheng Hong (re-designated as non-executive director on 5 December 2019)	–	1,211	–	15	1,226
Non-executive directors					
– Mr. Zheng Hong (re-designated from executive director on 5 December 2019)	–	110	–	1	111
– Mr. Sze Irons BBS, JP (resigned on 6 June 2019)	61	–	–	–	61
Independent non-executive directors					
– Ms. Zhang Baixiang	132	–	–	–	132
– Mr. Xu Yiliang	132	–	–	–	132
– Mr. Li Guoxing (appointed on 5 December 2019)	7	–	–	–	7
– Mr. Ng Wing Ka JP (resigned on 30 December 2019)	140	–	–	–	140
Total for 2019	472	2,382	–	38	2,892

16. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Name of directors					
Executive directors					
– Mr. Zheng Hong	–	1,265	–	15	1,280
– Mr. Zheng Yongxiang	–	1,016	2,030	22	3,068
Non-executive director					
– Mr. Sze Irons BBS, JP	126	–	–	–	126
Independent non-executive directors					
– Mr. Ng Wing Ka JP	126	–	–	–	126
– Ms. Zhang Baixiang	126	–	–	–	126
– Mr. Xu Yiliang	126	–	–	–	126
Total for 2018	504	2,281	2,030	37	4,852

Mr. Zheng Yongxiang is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors waived any emoluments in the years ended 31 December 2019 and 2018.

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

No significant transactions, arrangements or contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

17. DIVIDENDS

	2019 RMB'000	2018 RMB'000
2019 interim dividend of HK1.5 cents (2018: nil) per ordinary share	**16,823**	–

The Board of Directors of the Company does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: nil).

18. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2018: 1,252,350,000) in issue during the year:

	2019 RMB'000	2018 RMB'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of calculating basic (loss)/earnings per share ((loss)/profit for the year attributable to owners of the Company)	**(1,405)**	80,309

	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**1,252,350**	1,252,350

No diluted (loss)/earnings per share has been presented as there were no potential dilutive shares outstanding for the years ended 31 December 2019 and 2018.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2018	634,445	342	722,576	7,906	9,101	19,393	1,393,763
Additions	1,765	–	6,252	289	1,158	–	9,464
Construction expenditure capitalised	–	–	–	–	–	44,476	44,476
Disposals	–	–	(6,537)	(243)	–	–	(6,780)
Transfer from construction in progress	2,467	–	31,256	–	–	(33,723)	–
At 31 December 2018	638,677	342	753,547	7,952	10,259	30,146	1,440,923
Reclassification due to adoption of IFRS 16 (Note 3)	-	-	(38,183)	-	-	-	(38,183)
Additions	421	–	7,670	24	345	–	8,460
Construction expenditure capitalised	–	–	–	–	–	5,662	5,662
Disposals	–	–	(1,963)	(221)	(56)	–	(2,240)
Transfer from construction in progress	7,953	–	26,160	–	–	(34,113)	–
At 31 December 2019	647,051	342	747,231	7,755	10,548	1,695	1,414,622
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2018	92,741	342	198,977	3,412	6,144	–	301,616
Charge for the year	19,656	–	39,735	866	622	–	60,879
Disposals	–	–	(3,817)	`(212)	–	–	(4,029)
At 31 December 2018	112,397	342	234,895	4,066	6,766	–	358,466
Reclassification due to adoption of IFRS 16 (Note 3)	-	-	(1,821)	-	-	-	(1,821)
Charge for the year	21,097	–	40,690	857	854	–	63,498
Impairment loss	27,795	–	15,442	–	–	883	44,120
Disposals	–	–	(1,337)	(199)	(50)	–	(1,586)
At 31 December 2019	161,289	342	287,869	4,724	7,570	883	462,677
CARRYING AMOUNT							
At 31 December 2019	**485,762**	**–**	**459,362**	**3,031**	**2,978**	**812**	**951,945**
At 31 December 2018	526,280	-	518,652	3,886	3,493	30,146	1,082,457

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At 31 December 2019, the carrying amount of property, plant and equipment pledged as security for the Group's bills payable and bank and other borrowings amounted to approximately RMB592,758,000 (2018: RMB631,362,000).

At 31 December 2019, the carrying amounts of property, plant and equipment and right-of-use assets belong to the reporting segment of manufacturing and trading of polyester stable fibres were approximately RMB72,077,000 and RMB7,926,000 respectively. Due to the operating loss of the Group's manufacturing and trading of polyester stable fibres activities and worsening of global economic outlook, management concluded there were indications of impairment and performed an impairment assessment on these assets as at 31 December 2019 to determine the recoverable amount of this CGU to which the assets belong based on value in use of the CGU.

The recoverable amount of the CGU is determined on the basis of the value in use using discounted cash flow method as assessed by independent qualified professional valuer and approved by the directors. The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rate and budgeted gross margin and revenue during the period. The Group estimates discount rate using pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with an average growth rate of 7.21% and the residual period using the growth rate of 3% which is based on long-term average economic growth rate of the geographical area in which the business of the CGU operates.

The rate used to discount the forecast cash flows from the Group's manufacturing and trading of polyester stable fibres activities is 11.87%.

Based on the value in use calculation, the recoverable amount of the CGU at 31 December 2019 was approximately RMB35,457,000. Impairment losses on property, plant and equipment and right-of-use assets (Note 21) amounting to approximately RMB44,120,000 and RMB426,000 respectively were recognised during the year to reduce the carrying amount of the CGU to its recoverable amount.

20. PREPAID LEASE PAYMENTS

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

	RMB'000
At 1 January 2018	44,354
Additions	166
Amortisation	(1,077)
At 31 December 2018	43,443
Reclassification due to adoption of IFRS 16 (Note 3)	(43,443)
At 31 December 2019	**–**

	2018 RMB'000
Current portion	1,079
Non-current portion	42,364
	43,443

21. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Plant and machinery RMB'000	Total RMB'000
At 1 January 2019 (Note 3)	43,443	–	36,362	79,805
Additions	–	1,104	5,254	6,358
Depreciation	(1,079)	(460)	(3,530)	(5,069)
Impairment loss	(426)	–	–	(426)
At 31 December 2019	**41,938**	**644**	**38,086**	**80,668**

At 31 December 2019, the carrying amount of leasehold land and plant and machinery pledged as security for the Group's bills payable and bank and other borrowings amounted to approximately RMB34,438,000 and RMB38,086,000 respectively (2018: pledged prepaid lease payments in relation to land use rights and plant and machinery under finance leases amounted to approximately RMB34,799,000 and RMB36,362,000 respectively).

Details of total cash outflow for leases is set out in Note 39(c).

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold land. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

For both years, the Group leases office premises for its operations. Lease contract is entered into for a fixed term of 2 years.

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4.6 years. At 31 December 2019, the effective borrowing rates ranged from 3.82% to 5.45% (2018: 4.11% to 5.12%) per annum. Interest rates are arranged at floating rates and thus exposes the Group to cash flow interest rate risk. No arrangement has been entered into for contingent rental payments. At the end of the lease terms, the Group has the option to purchase the plant and machinery at nominal prices.

22. GOODWILL

	2019 RMB'000	2018 RMB'000
COST		
At beginning of the year and at end of the year	**34,829**	34,829
ACCUMULATED IMPAIRMENT LOSSES		
At beginning of the year and at end of the year	**14,212**	14,212
CARRYING AMOUNT		
At end of the year	**20,617**	20,617

Goodwill acquired in a business combination is allocated, at acquisition, to the CGU, Huachun's sales of yarns, that is expected to benefit from that business combination.

The recoverable amount of the CGU is determined on the basis of the value in use using discounted cash flow method as assessed by independent qualified professional valuer and approved by the directors. The key assumptions for the discounted cash flow method are those regarding the discount rate, growth rate and budgeted gross margin and revenue during the period. The Group estimates discount rate using pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rate is based on long-term average economic growth rate of the geographical area in which the business of the CGU operates. Budgeted gross margin and revenue are based on past practices and expectations on market development.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the growth rate of 3.0% (2018: 3.0%).

The rate used to discount the forecast cash flows from the Huachun's sales of yarns activities is 11.64% (2018: 15.11%).

No impairment loss on goodwill was recorded in the current year as the CGU recoverable amount exceeded its carrying amount.

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	**75,501**	87,137
Work in progress	**17,485**	23,999
Finished goods	**112,801**	137,964
	205,787	249,100

24. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**26,234**	21,061
Advance payment to suppliers	**9,254**	7,318
Prepayments and other receivables	**1,742**	1,021
Other tax recoverables	**10,622**	2,324
	47,852	31,724

In general, the Group receives advance or bills from the customers before the products are delivered. The Group allows some of the long-term and loyal customers to have credit terms of 15 - 90 days depending on creditability of the customers.

Before accepting any new customer, the Group has assessed the potential customer's credit quality. The Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

No interest is charged on overdue trade receivables. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

24. TRADE AND OTHER RECEIVABLES (Continued)

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

	2019 RMB'000	2018 RMB'000
0 - 30 days	**21,389**	18,838
31 - 90 days	**2,650**	2,130
91 - 180 days	**1,272**	85
181 - 365 days	**919**	8
Over 365 days	**4**	–
	26,234	21,061

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

	2019 RMB'000	2018 RMB'000
US$	**–**	9
RMB	**26,234**	21,052
Total	**26,234**	21,061

25. BILLS RECEIVABLE

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

	2019 RMB'000	2018 RMB'000
0 - 30 days	**3,510**	3,189
31 - 90 days	**1,906**	2,732
91 - 180 days	**2,320**	2,879
181 - 365 days	**2,481**	–
	10,217	8,800

Included in bills receivable at 31 December 2019 was an amount of approximately RMB8,667,000 (2018: RMB7,561,000) 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.

	Bills receivable endorsed to suppliers with full recourse	
	2019 RMB'000	2018 RMB'000
Carrying amount of recognised financial assets	**8,667**	7,561
Carrying amount of corresponding liabilities not set-off	**(8,667)**	(7,561)

The carrying amounts of the Group's bills receivable are denominated in RMB.

The directors estimate that the carrying amounts of the Group's bills receivable is not materially different from its fair value at 31 December 2019.

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

	2019 **RMB'000**	2018 RMB'000
Pledged bank deposits	**33,807**	69,791
Restricted bank deposit	**500**	500
Cash and bank balances	**135,585**	47,548
	169,892	117,839

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

	2019	2018
Pledged bank deposits	**0.20% - 1.50%**	0.40% - 1.75%
Restricted bank deposit	**0.30%**	0.30%
Cash and bank balances	**0.001% - 1.15%**	0.001% - 1.15%

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

	2019 **RMB'000**	2018 RMB'000
HK$	**2,022**	916
US$	**3,130**	3,586
RMB	**164,740**	113,337
	169,892	117,839

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

The Group's restricted bank deposit represents minimum requirement of deposit placed in a designated bank account.

At 31 December 2019, the pledged bank deposits, restricted bank deposit, cash and bank balances of the Group's PRC subsidiaries denominated in RMB amounted to approximately RMB164,740,000 (2018: RMB113,337,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**104,605**	66,776
Other payables	**22,202**	6,965
Other tax payables	**13,081**	12,825
Accrued salaries and wages	**18,893**	19,532
Other accrued charges	**119,208**	93,870
Payables for acquisition of property, plant and equipment	**6,802**	14,266
Dividend payables	**278**	243
	285,069	214,477

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:

	2019 RMB'000	2018 RMB'000
0 - 30 days	**36,356**	51,308
31 - 90 days	**55,883**	13,837
91 - 180 days	**11,324**	546
181 - 365 days	**1,042**	1,085
	104,605	66,776

In general, the Group makes advance payment to suppliers before the materials or goods are received. The creditors may, in some cases, allow a credit period and the average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

27. TRADE AND OTHER PAYABLES (Continued)

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

	2019 RMB'000	2018 RMB'000
US$	**936**	–
RMB	**103,669**	66,776
Total	**104,605**	66,776

28. CONTRACT LIABILITIES

Contract liabilities represented deposits from customers.

Movements in contract liabilities:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	**28,017**	13,092
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the year	**(27,902)**	(13,092)
Increase in contract liabilities as a result of receiving deposits from customers	**16,805**	28,017
Balance at 31 December	**16,920**	28,017

29. BILLS PAYABLE

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

	2019 RMB'000	2018 RMB'000
0 - 30 days	**8,840**	42,492
31 - 90 days	**20,604**	45,965
91 - 180 days	**26,687**	45,461
181 – 365 days	**25,015**	39,862
	81,146	173,780

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

	2019 RMB'000	2018 RMB'000
US$	**4,306**	–
RMB	**76,840**	173,780
	81,146	173,780

30. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants	**7,483**	7,710
Analysed as:		
Current liabilities	**227**	227
Non-current liabilities	**7,256**	7,483
	7,483	7,710

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

Government grants are recognised as deferred income in the consolidated statement of financial position when received. For the refund of purchase cost of land use rights and deed tax, they are transferred to profit or loss over the lease terms of the corresponding land use rights. For the refund of construction cost of the building premises, it is transferred to profit or loss over the estimated useful lives of building premises upon completion of the construction. These policies have resulted in a credit to profit or loss in the current year of approximately RMB227,000 (2018: RMB227,000). At 31 December 2019, an aggregate carrying amount of approximately RMB7,483,000 (2018: RMB7,710,000) remains to be amortised.

31. LEASE LIABILITIES (2018: FINANCE LEASE PAYABLES)

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**8,807**	6,724	**7,883**	5,768
In the second to fifth years, inclusive	**17,304**	20,774	**16,374**	19,296
	26,111	27,498	**24,257**	25,064
Less: Future interest expenses	**(1,854)**	(2,434)	**N/A**	N/A
	24,257	25,064	**24,257**	25,064
Less: Portion of amount contains a repayment on demand clause or due for settlement within 12 months (shown under current liabilities)			**(21,605)**	(25,064)
Amount due for settlement after 12 months			**2,652**	–

All the lease liabilities are denominated in HK$.

Upon the adoption of IFRS 16, the Group reclassified the finance lease payables of approximately RMB25,064,000 to lease liabilities at 1 January 2019. Further details on the impact of the transition to IFRS 16 are set out in Note 3.

32. BANK AND OTHER BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured	**356,272**	328,760
Unsecured	**58,895**	61,339
	415,167	390,099

	2019 RMB'000	2018 RMB'000
The bank and other borrowings are repayable as follows:		
Within one year	**366,039**	361,697
More than one year, but not exceeding two years	**10,261**	20,492
More than two years, but not more than five years	**34,315**	3,684
	410,615	385,873
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**4,552**	4,226
	415,167	390,099
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(370,591)**	(365,923)
Amount due for settlement after 12 months	**44,576**	24,176

At 31 December 2019, certain assets of the Group have been pledged as collaterals for secured bank and other borrowings (Note 40).

32. BANK AND OTHER BORROWINGS (Continued)

The carrying amounts of the Group's bank and other borrowings are denominated in the followings currencies:

	2019 RMB'000	2018 RMB'000
HK$	**13,895**	6,339
US$	**3,252**	–
RMB	**398,020**	383,760
Total	**415,167**	390,099

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

	2019	2018
Interest rate:		
– Fixed-rate borrowings	**4.79% - 10.71%**	4.79% - 8.50%
– Variable-rate borrowings	**2.50% - 7.20%**	3.09% - 5.70%

Bank and other borrowings of approximately RMB284,300,000 (2018: RMB353,420,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining bank and other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The directors estimate that the carrying amounts of the Group's bank and other borrowings are not materially different from their fair value at 31 December 2019.

33. ENTRUSTED LOAN PAYABLE

On 4 December 2018, the Group entered into a two-year entrusted loan agreement with a director - Mr. Zheng Yongxiang and a bank in which Mr. Zheng Yongxiang provided a loan of RMB50,000,000 to the Group through this entrusted bank. The entrusted loan is unsecured and arranged at 6% fixed interest rate per annum. The principal amount is repayable on 19 October 2020.

The amount of entrusted loan interest recognised by the Group in relation to the aforesaid loan during the year ended 31 December 2019 was approximately RMB3,042,000 (2018: RMB125,000).

The directors estimate that the carrying amount of the Group's entrusted loan payable is not materially different from its fair value at 31 December 2019.

34. DEFERRED TAX

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

Deferred tax assets/(liabilities)

	Tax losses RMB'000	Deductible/ (Accelerated) tax depreciation RMB'000	Fair value adjustments on business combination RMB'000	Undistributed earnings of the PRC subsidiary RMB'000	Total RMB'000
At 1 January 2018	–	2,368	(13,009)	(6,700)	(17,341)
Credit/(Charge) to profit or loss (Note 13)	5,918	(24,343)	548	(2,166)	(20,043)
At 31 December 2018 and 1 January 2019	5,918	(21,975)	(12,461)	(8,866)	(37,384)
(Charge)/Credit to profit or loss (Note 13)	(4,179)	4,866	5,313	(1,819)	4,181
At 31 December 2019	**1,739**	**(17,109)**	**(7,148)**	**(10,685)**	**(33,203)**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	**1,739**	5,918
Deferred tax liabilities	**(34,942)**	(43,302)
	(33,203)	(37,384)

34. DEFERRED TAX (Continued)

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. At 31 December 2019 and 2018, deferred tax has been provided on the undistributed earnings of the PRC subsidiary from 1 January 2008.

At the end of the reporting period, the Group has unused tax losses of approximately RMB61,350,000 (2018: RMB46,843,000) and unrecognised deductible temporary differences of approximately RMB47,748,000 (2018: nil) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB11,595,000 (2018: RMB23,672,000) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax losses of approximately RMB49,755,000 (2018: RMB23,171,000) and unrecognised deductible temporary differences due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB29,924,000 (2018: RMB8,612,000) that will expire after 5 years from the year of assessment they related to. Other tax losses may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2018 and 31 December 2019	10,000,000	1,000,000

	Number of Shares '000	HK$'000	RMB'000
Issued and fully paid:			
At 31 December 2018 and 31 December 2019	**1,252,350**	**125,235**	**101,989**

35. SHARE CAPITAL (Continued)

Capital management

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

The capital structure of the Group consists of net debts (which represent total debts include entrusted loan payable, bank and other borrowings and lease liabilities (2018: entrusted loan payable, bank borrowings and finance lease payables), net of cash and cash equivalents) and equity attributable to owners of the Company, comprising share capital, share premium and reserves. The capital structure at 31 December 2019 and at 31 December 2018 was as follows:

	2019 RMB'000	2018 RMB'000
Total debts	**489,424**	465,163
Less: Cash and cash equivalents	**(135,585)**	(47,548)
Net debts	**353,839**	417,615
Equity attributable to owners of the Company	**568,909**	592,159
Net debts and equity attributable to owners of the Company	**922,748**	1,009,774

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group balances its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

The externally imposed capital requirements for the Group are: (a) in order to maintain its listing on the Stock Exchange it has to have a public float of at least 25% of the shares; and (b) to meet financial covenants attached to the interest-bearing borrowings.

The Group receives a report from the share registrars regularly on substantial share interests showing the non-public float and demonstrates the continuing compliance with the 25% limit throughout the year.

The Group is subject to the maintenance of a specified financial requirement on its consolidated tangible net worth. During the year, the Group complied with the aforesaid financial requirement of its interest-bearing borrowings.

36. CAPITAL COMMITMENTS

	2019 **RMB'000**	2018 RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	**6,346**	6,168

37. OPERATING LEASE ARRANGEMENT

At 31 December 2018, the total future minimum lease payments under a non-cancellable operating lease in respect of its office premises, which fall due as follows:

	2018 RMB'000
Within one year	88

38. RETIREMENT BENEFITS SCHEME

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

In addition, the Group operates the MPF Scheme for all qualifying Hong Kong employees in the Group. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs with the maximum monthly amount of HK$1,500 to the MPF Scheme, which contribution is matched by employees.

The total contributions to retirement benefits schemes charged to profit or loss for the year ended 31 December 2019 are disclosed in Notes 15 and 16.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year ended 31 December 2019, additions of right-of-use assets and property, plant and equipment of approximately RMB6,358,000 and RMB3,252,000 were financed by finance leases and other borrowings respectively.

During the year ended 31 December 2018, additions of property, plant and equipment of approximately RMB4,533,000 were financed by a finance lease.

During the year ended 31 December 2018, settlement of bills payable of approximately RMB19,424,000 was financed by finance leases.

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2019 RMB'000	Impact on initial application of IFRS 16 (Note 3) RMB'000	Restated balance at 1 January 2019 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	Exchange differences RMB'000	Additions of property, plant and equipment RMB'000	31 December 2019 RMB'000
Finance lease payables	25,064	(25,064)	–	–	–	–	–	–
Lease liabilities	–	25,064	25,064	(8,614)	969	480	6,358	24,257
Bank and other borrowings	390,099	–	390,099	(5,573)	27,389	–	3,252	415,167
Entrusted loan payable	50,000	–	50,000	(4,332)	4,332	–	–	50,000
	465,163	–	465,163	(18,519)	32,690	480	9,610	489,424

	1 January 2018 RMB'000	Cash flows RMB'000	Interest expenses/ finance lease charges RMB'000	Exchange differences RMB'000	Additions of property, plant and equipment RMB'000	Settlement of bills payable RMB'000	31 December 2018 RMB'000
Amounts due to related companies	122,000	(122,000)	–	–	–	–	–
Finance lease payables	2,875	(3,491)	463	1,260	4,533	19,424	25,064
Bank borrowings	527,989	(173,323)	35,077	356	–	–	390,099
Entrusted loan payable	–	49,875	125	–	–	–	50,000
	652,864	(248,939)	35,665	1,616	4,533	19,424	465,163

39. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 RMB'000	2018 RMB'000
Within operating cash flows	**1,057**	970
Within investing cash flows	**20**	166
Within financing cash flows	**7,645**	3,028
	8,722	4,164

These amounts relate to the following:

	2019 RMB'000	2018 RMB'000
Lease rental paid	**8,702**	3,998
Payment for rental deposits	**20**	–
Prepaid lease payments	**–**	166
	8,722	4,164

(d) Acquisition of additional interest in a subsidiary

During the year, the Group acquired 26% equity interests in its 51% subsidiary, Xinyuan from a non-controlling shareholder at a cash consideration of RMB18,200,000. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	2019 RMB'000
Share of net assets in the subsidiary acquired	**13,178**
Consideration	**(18,200)**
Loss on acquisition recognised directly in equity	**(5,022)**

40. PLEDGE OF ASSETS

At 31 December 2019, the following carrying amounts of assets have been pledged as security for the Group's bills payable, lease liabilities and bank and other borrowings (2018: bills payable, finance lease payables and bank borrowings) (Notes 29, 31 and 32).

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	**592,758**	667,724
Right-of-use assets	**72,524**	–
Prepaid lease payments	**–**	34,799
Pledged bank deposits	**33,807**	69,791
	699,089	772,314

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

41. RELATED PARTY TRANSACTIONS

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

(a) Transactions with a related party

	2019 RMB'000	2018 RMB'000
Sales of finished goods to - 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co. Limited ("**Jiangxi Baoyuan**")	**6,760**	20,257
Purchase of raw materials from Jiangxi Baoyuan	**171**	490

Jiangxi Baoyuan is considered as a related party of the Group since 85% (2018: 80%) of its equity interest is owned by a close family member of two directors.

41. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel

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

	2019 RMB'000	2018 RMB'000
Short-term benefits	**3,703**	5,628
Post-employment benefits	**60**	60
	3,763	5,688

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

At 31 December 2019, included in accrued salaries and wages was an amount of approximately RMB41,000 (2018: RMB113,000) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

At 31 December 2019, included in prepayments and other receivables was an amount of approximately RMB41,000 (2018: RMB218,000) being advance of remuneration to a director.

(c) Balances with related parties

	2019 RMB'000	2018 RMB'000
Included in other payables:		
Amount due to a related company – Jiangxi Baoyuan (Note)	**–**	–
Entrusted loan payable (Note 33)	**50,000**	50,000

Note:

During the year ended 31 December 2019, certain unsecured loans ranging from RMB2,000,000 to RMB30,000,000 were advanced from Jiangxi Baoyuan. These interest-free loans were fully settled during the year ended 31 December 2019 (2018: certain unsecured loans ranging from RMB2,000,000 to RMB40,000,000).

(d) Other transactions with related parties

At 31 December 2019 and 2018, certain bank borrowings were guaranteed by the executive director and a close family member of two directors.

42. CONTINGENT LIABILITIES

At 31 December 2019, the Group did not have any significant contingent liabilities (2018: Nil).

43. SHARE OPTION SCHEME

Pursuant to a resolution passed on 3 December 2011, the Company adopted a share option scheme (the "**Option Scheme**"), which will expire 10 years after the date on which the shares of the Company (the "**Shares**") commence listing on the Stock Exchange, for the purpose of motivating the eligible participants to optimise their performance efficiency for the benefit of the Group and attracting and retaining or maintaining on-going business relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Under the Option Scheme, the directors of the Company may grant options to any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

The exercise price is determined by the board of the Company, and will not be less than the highest of (a) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities, (b) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of a Share.

The maximum number of shares in respect of which options may be granted under the Option Scheme must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the public floatation, being 100,000,000 Shares, excluding for this purposed Shares which would have been issuable pursuant to the over- allotment option and options which have lapsed in accordance with the terms of the Option Scheme (or any other share option schemes of the Company).

Besides, the total maximum number of shares which may be issued upon exercise of all outstanding share options must not exceed 30% of the issued share capital from time to time. The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue at the date of grant.

No share options were granted by the Company nor exercised by any employees during the years ended 2019 and 2018. There are no share options outstanding at 31 December 2019 and 2018.

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

(a) Statement of financial position of the Company

	Note	2019 RMB'000	2018 RMB'000
Non-current assets			
Investments in subsidiaries		**182,674**	136,043
Advances to a subsidiary		**–**	75,411
		182,674	211,454
Current assets			
Prepayments		**206**	298
Cash and bank balances		**349**	324
		555	622
Current liabilities			
Other payables		**710**	663
Amount due to a subsidiary		**–**	14,672
Financial guarantee contract liabilities		**752**	2,288
		1,462	17,623
Net current liabilities		**(907)**	(17,001)
Net assets		**181,767**	194,453

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

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

	Note	2019 RMB'000	2018 RMB'000
Capital and reserves			
Share capital		**101,989**	101,989
Reserves	44(b)	**79,778**	92,464
Equity		**181,767**	194,453

Approved by the Board of Directors on 25 March 2020 and are signed on its behalf by:

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

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

(b) Reserve movement of the Company

	Share Premium RMB'000 (Note 45(b)(i))	Special reserve RMB'000 (Note 45(b)(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2018	73,903	(81)	13,933	87,755
Profit and total comprehensive income for the year	–	–	4,709	4,709
At 31 December 2018 and at 1 January 2019	**73,903**	**(81)**	**18,642**	**92,464**
Profit and total comprehensive income for the year	**–**	**–**	**4,137**	**4,137**
Dividends	**–**	**–**	**(16,823)**	**(16,823)**
At 31 December 2019	**73,903**	**(81)**	**5,956**	**79,778**

45. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on their shares shall be transferred to share premium account. The application of the share premium account is governed by the Companies Law of the Cayman Islands. Share premium of the Company is distributable to shareholders subject to the provisions of the Company's Memorandum and Articles of Association and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) PRC statutory reserves

PRC statutory reserves include statutory surplus reserve and discretionary surplus reserve.

According to the relevant rules and regulations in the PRC, subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

Moreover, upon approval by the equity owner, a subsidiary of the Company transfers 10% of its profit after tax, as determined in accordance with the PRC accounting and regulations, to the discretionary surplus reserve.

(iii) Special reserve

Special reserve arises from the issue of a company's shares in exchange for the shares of companies being acquired, and represents (a) the difference between the nominal value of the Company's shares issued and the value of the shares of Jolly Success International Limited ("**Jolly Success**") acquired, (b) the difference between the nominal value of shares issued for the acquisition of Treasure Resources by Jolly Success and the paid up capital of Treasure Resources, and (c) the difference between the nominal value of shares issued by Treasure Resources for the acquisition of Jiangxi Jinyuan and the net asset value of Jiangxi Jinyuan.

46. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operation	Issued and paid up capital	Percentage of ownership interest		Principal activities
			Direct	Indirect	
Jolly Success International Limited	British Virgin Islands/ Hong Kong	Ordinary HK$1,000	**100%**	–	Investment holding
Treasure Resources Corporation Limited	Hong Kong	Ordinary HK$2,000	–	100%	Investment holding and trading of yarn products and related materials
Jinyuan Textile Co., Ltd., Jiangxi#	PRC	HK$353,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Huachun Color Spinning Technology Development Co., Ltd. △*	PRC	RMB120,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Xinyuan Special Fibres Company Limited △*	PRC	RMB70,000,000	–	77%	Manufacturing and trading of polyester staple fibres

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

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

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

46. SUBSIDIARIES (Continued)

The following table shows information on Xinyuan that has non-controlling interests material to the Group. The summarised financial information represents amounts before inter-company elimination.

Name	Xinyuan	
	2019	2018
Principal place of business/country of establishment	**PRC**	PRC
% of ownership interests/voting rights held by non-controlling interests	**23%**	49%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**35,843**	82,307
Current assets	**81,268**	27,421
Non-current liabilities	**(39,679)**	(2,116)
Current liabilities	**(89,383)**	(47,740)
Net (liabilities)/assets	**(11,951)**	59,872
Year ended 31 December:		
Revenue	**146,641**	177,776
Loss	**(71,823)**	(473)
Total comprehensive income	**(71,823)**	(473)
Net cash (used in)/generated from operating activities	**(15,599)**	14,339
Net cash used in investing activities	**(4,529)**	(10,508)
Net cash generated from financing activities	**22,045**	740
Net increase in cash and cash equivalents	**1,917**	4,571

46. SUBSIDIARIES (Continued)

The loss allocated to non-controlling interests of Xinyuan during the reporting period and the accumulated non-controlling interests of Xinyuan at the reporting date are set out below:

	2019 RMB'000	2018 RMB'000
Loss allocated to non-controlling interests	**(18,905)**	(277)
Accumulated non-controlling interests	**(2,721)**	29,362

47. EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and financial performance of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impact on the Group's financial position, cash flows and financial performance at the date on which these financial statements are authorised for issue.

48. COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 3.

Five Years Financial Summary

	Year ended 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
Revenue	1,302,799	1,435,942	1,582,558	1,836,161	**1,796,390**
Cost of sales	(1,196,908)	(1,280,402)	(1,440,088)	(1,640,190)	**(1,680,266)**
Gross profit	105,891	155,540	142,470	195,971	**116,124**
Other income	23,774	16,896	22,227	31,231	**28,641**
Other gains and losses	1,216	(18,619)	22,129	(2,723)	**260**
Distribution and selling expenses	(25,858)	(25,671)	(24,245)	(25,752)	**(28,354)**
Administrative expenses	(42,874)	(46,304)	(49,948)	(53,711)	**(55,645)**
Gain from fire, net	5,513	–	–	–	**–**
Impairment loss on property, plant and equipment	–	–	–	–	**(44,120)**
Impairment loss on right-of-use assets	–	–	–	–	**(426)**
Profit from operations	67,662	81,842	112,633	145,016	**16,480**
Finance costs	(51,800)	(52,984)	(55,774)	(35,665)	**(32,690)**
Profit/(Loss) before tax	15,862	28,858	56,859	109,351	**(16,210)**
Income tax expense	(2,305)	(16,059)	(8,914)	(29,319)	**(4,100)**
Profit/(Loss) and total comprehensive income for the year	13,557	12,799	47,945	80,032	**(20,310)**
Profit/(Loss) and total comprehensive income for the year attributable to:					
Owners of the Company	13,823	14,846	50,293	80,309	**(1,405)**
Non-controlling interests	(266)	(2,047)	(2,348)	(277)	**(18,905)**
	13,557	12,799	47,945	80,032	**(20,310)**
Earnings/(Loss) per share					
Basic (RMB cents)	1.10	1.19	4.02	6.41	**(0.11)**
Diluted (RMB cents)	1.10	1.19	2.12	6.41	**N/A**

	At 31 December				
	2015 RMB'000	2016 RMB'000	2017 RMB'000	2018 RMB'000	**2019 RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,508,211	1,548,305	1,563,120	1,556,740	**1,487,079**
Total liabilities	(1,044,616)	(1,054,761)	(1,021,631)	(935,219)	**(920,891)**
Net assets	463,595	493,544	541,489	621,521	**566,188**
Equity attributable to:					
Owners of the Company	446,711	461,557	511,850	592,159	**568,909**
Non-controlling interests	16,884	31,987	29,639	29,362	**(2,721)**
Total equity	463,595	493,544	541,489	621,521	**566,188**