# GRAND CONCORD INTERNATIONAL HOLDINGS LIMITED
# 廣豪國際控股有限公司

*(Incorporated in the British Virgin Islands with limited liability)*

**(Stock code: 844)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board (the "**Board**") of directors (the "**Directors**") of Grand Concord International Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015, which have been prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**"), as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2016*

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 31 December 2016*

| | Notes | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **199,890** | 213,142 |
| Goodwill | | **–** | 1,008 |
| Prepaid lease payments | | **11,532** | 11,830 |
| Deposits paid to acquire property, plant and equipment | | **472** | 363 |
| Deferred tax assets | | **502** | 444 |
| | | **212,396** | 226,787 |
| **CURRENT ASSETS** | | | |
| Inventories | *10* | **44,482** | 58,394 |
| Trade and bills receivables | *11* | **48,306** | 82,321 |
| Prepayments and other receivables | | **13,010** | 24,823 |
| Prepaid lease payments | | **297** | 297 |
| Income tax recoverable | | **–** | 103 |
| Restricted bank deposits | | **3,225** | 15,984 |
| Cash and bank balances | | **109,876** | 76,175 |
| | | **219,196** | 258,097 |
| **CURRENT LIABILITIES** | | | |
| Trade and bills payables | *12* | **31,914** | 62,177 |
| Accruals and other payables | | **17,053** | 17,444 |
| Advance from customers | | **1,838** | 2,000 |
| Interest-bearing borrowings | | **88,000** | 97,412 |
| Derivatives embedded in convertible bonds | | **–** | 87 |
| Convertible bonds | | **–** | 4,388 |
| Income tax payables | | **1,110** | 190 |
| | | **139,915** | 183,698 |
| Net current assets | | **79,281** | 74,399 |
| Total assets less current liabilities | | **291,677** | 301,186 |
| **NON-CURRENT LIABILITY** | | | |
| Deferred tax liabilities | | **609** | 572 |
| **NET ASSETS** | | **291,068** | 300,614 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **91,106** | 91,106 |
| Reserves | | **199,962** | 209,508 |
| **TOTAL EQUITY** | | **291,068** | 300,614 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF CONSOLIDATION

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

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

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

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

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

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

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

**New and revised HKFRSs issued but not yet effective**

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

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

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

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

## 3. REVENUE AND SEGMENT INFORMATION

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

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

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

(1) Innerwear products – manufacturing of innerwear and garments

(2) Knitted fabrics – manufacturing of fabrics

**Geographical information**

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

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

*Note:* Non-current assets excluded deferred tax assets.

**Information about major customers**

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

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

*Notes:*

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

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

## 4. OTHER INCOME AND GAINS

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

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

## 5. FINANCE COSTS

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

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

## 6. INCOME TAX EXPENSE

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

### (a) Overseas income tax

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

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

### (b) Hong Kong Profits Tax

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

### (c) EIT

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

(d) **Withholding tax**

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

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

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

## 7. LOSS FOR THE YEAR

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

## 8. LOSS PER SHARE

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

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

## 9. DIVIDENDS

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

## 10. INVENTORIES

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

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

## 11. TRADE AND BILLS RECEIVABLES

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

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

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

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

## 12. TRADE AND BILLS PAYABLES

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

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

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

The bills payables were secured by restricted bank deposits and bills receivables.

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY OVERVIEW

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

## BUSINESS REVIEW

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

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

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

## FINANCIAL REVIEW

### Revenue

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

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

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

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

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

**Cost of sales**

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

**Gross profit and gross profit margin**

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

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

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

**Other income and other gains**

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

**Change in fair value in respect of the Convertible Bonds**

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

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

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

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

**Selling and distribution expenses**

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

**Administrative expenses**

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

**Finance costs**

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

**Loss before tax**

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

**Income tax expense**

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

**Loss for the year and loss margin**

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

**Inventories**

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

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

**Trade and bills receivables**

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

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

**Trade and bills payables**

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

**Liquidity and financial resources**

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

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

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

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

**Interest rate and foreign currency exposure**

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

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

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

**Contingent liabilities**

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

**Charges on group assets**

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

## HUMAN RESOURCES

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

## FINAL DIVIDEND

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

## MATERIAL ACQUISITIONS AND DISPOSALS

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

## PROSPECT

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

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

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

**Code Provision A.2.1**

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

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

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

## AUDIT COMMITTEE

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

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

The Group's audited financial statements and annual report for the year ended 31 December 2016 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such statements and report complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

## REVIEW OF PRELIMINARY ANNOUNCEMENT OF RESULTS BY THE INDEPENDENT AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditors, SHINEWING (HK) CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by SHINEWING (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by SHINEWING (HK) CPA Limited on the preliminary announcement.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company is scheduled to be held on Friday, 26 May 2017. A notice convening the annual general meeting will be published on the websites of the Stock Exchange and the Company and despatched to the shareholders of the Company in due course.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the annual general meeting, the register of members of the Company will be closed from Tuesday, 23 May 2017 to Friday, 26 May 2017, both dates inclusive, during which period no transfer of shares will be registered. Shareholders are reminded that in order to qualify for attendance at the annual general meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Monday, 22 May 2017.

## PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the website of the Company at www.grandconcord.com. The Company's annual report for the year 2016 will be available at the same websites and will be despatched to the Company's shareholders in due course.

By order of the Board
**Grand Concord International Holdings Limited**
**Wang Bin**
*Chairman*

Hong Kong, 30 March 2017

*As at the date of this announcement, the directors of the Company comprise of Mr. Wang Bin, Ms. Tian Ying and Mr. Lam Tet Foo as executive Directors, Mr. Zhang Yanlin as non-executive Director, and Mr. Xu Dunkai, Ms. Feng Xin and Mr. Hu Quansen as independent non-executive Directors.*