CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code: 3778

ANNUAL REPORT 2021

CONTENTS

Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Director
Mr. Zheng Yongxiang

Non-Executive Director
Mr. Zheng Hong *(Chairman)*

Independent Non-Executive Directors
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing

BOARD COMMITTEES

Audit committee
Ms. Zhang Baixiang *(Chairman)*
Mr. Xu Yiliang
Mr. Li Guoxing

Remuneration committee
Mr. Xu Yiliang *(Chairman)*
Ms. Zhang Baixiang
Mr. Zheng Hong
Mr. Li Guoxing

Nomination committee
Mr. Zheng Hong *(Chairman)*
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing

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 1321, Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Morgan, Lewis and Bockius

As to PRC law:
Jiangxi Kangtuo Law Offices

AUDITOR

RSM Hong Kong
Certified Public Accountants
Registered Public Interest Entity Auditor

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)
Bank of Jiujiang
China Construction Bank Corporation
(Fengxin Sub-branch)
China Everbright Bank Co. Ltd.
(Fuzhou Nanmen Sub-branch)
China Merchant Bank (Nanchang Branch)
DahSing Bank
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)
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Chairman’s Statement

In 2021, the global economy improved as developed countries emerged from the Covid-19 pandemic (the “**Pandemic**”). The GDP of the United States (the “**US**”) has recorded an increase of around 5.7% for 2021 after suffering from a contraction of 3.5% in 2020. The European Union (the “**EU**”) has also recorded an increase of around 5.3% for 2021 after suffering a contraction of 6.2% in 2020. After a strong recovery in the first half of 2021, the growth of the People’s Republic of China (the “**PRC**”) slowed down in the second half of 2021. The GDP of the PRC has recorded an increase of around 8.1% for 2021, the highest rate for a major global economy.

A robust economy recovery in the PRC largely driven by domestic consumption, the successful containment of the Pandemic by the PRC government and rising commodities prices created favourable market conditions for the textile market in the PRC. China Weaving Materials Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) took advantage of the market conditions and adjusted its product mix to respond to market demand. The revenue of the Group increased by 21.3% to approximately RMB1,724.3 million for the year ended 31 December 2021 as compared to RMB1,421.1 million for the year ended 31 December 2020. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2021 were approximately RMB317.5 million and approximately RMB202.5 million, respectively. The Board has recommended the payment of a dividend of HK5.0 cents per share (the “**Final Dividend**”) of the Company in respect of the year ended 31 December 2021 to the shareholders of the Company (the “**Shareholders**”).

The Group is optimistic about the textile market and announced a plan to construct a highly automated workshop with a capacity of 50,000 spindles (“**the New Workshop**”). The construction of the New Workshop has commenced in the third quarter of 2021 and has been progressing as planned. The Group also acquired the remaining minority interests in the Group’s subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited (“**Xinyuan**”) to strengthen its interest in the upstream operation.

The roll-out of vaccines around the world and a robust global economic recovery mean a better opening for 2022 than we have expected a year ago. Clearly there are still significant challenges ahead, foremost among which is the uncertainty caused by the spread of the Omicron variant, and potentially other variants in the future. More recently, the Russia invasion of Ukraine (“**Russia Ukraine Conflict**”) has introduced a major uncertainty in the recovery of the global economy. However, the economic recovery still appears to be robust and the PRC appears to be in a better position to navigate through the risks and uncertainties given its continuing successful containment of the Pandemic. The Group believes it is well positioned to take advantage of favourable market conditions given its scale of production, strong brand recognition and professional management.

Zheng Hong

Chairman
The PRC, 29 March 2022

Management Discussion and Analysis

MARKET OVERVIEW

In 2021, there were signs of improvement in the global economy as developed countries emerged from the Pandemic. As the Covid -19 vaccines were rolled out globally, economic recovery throughout the world continued during 2021. However, there was divergence in the development trends of different economies due to the impact of different and changing policies in the prevention and control of the Pandemic. The GDP of the US has recorded an increase of around 5.7% for 2021 after suffering from a contraction of 3.5% in 2020. The EU has also recorded an increase of around 5.3% for 2021 after suffering a contraction of 6.2% in 2020. After a strong recovery in the first half of 2021, the growth of the PRC slowed down in the second half of 2021. The GDP of the PRC has recorded an increase of around 8.1% for 2021, the highest rate for a major global economy.

The gradual recovery of the global economy has stimulated a rapid recovery in the demand in the international crude oil market. The international crude oil price continued to fluctuate upward; it has risen from around US$50 per barrel at the end of 2020 to around US$75 per barrel at the end of 2021. The upward moving crude oil price has pushed up the prices of oil related downstream products, including raw materials for polyester yarn products. Hence, the upward price trend of raw materials contributed to the increase in the selling prices of polyester yarn products in 2021 accordingly.

The international cotton prices also benefited from the recovery of global economy. International prices of cotton have followed an upward trend and have risen from round US80 cents per pound at the end of 2020 to around US110 cents per pound at the end of 2021. Domestic cotton prices in the PRC have been trading at prices showing a similar pattern with that of international cotton. They have risen from around RMB14,500 per tonne at the end of 2020 to over RMB21,000 per tonne at the end of 2021. There was no change in the PRC government policies in relation to collection of cotton reserve, direct subsidiary to cotton farmers and the orderly auction of the cotton reserve in 2021. However, in December 2021, the PRC government temporarily suspended the auction of cotton reserve in response to the market situations. During 2021, the domestic cotton prices in the PRC have not been affected by the continuing policies.

The roll-out of vaccines around the world and a robust global economic recovery mean a better opening for 2022 than we have expected a year ago. Clearly there are still significant challenges ahead, foremost among which is the uncertainty caused by the spread of the Omicron variant, and potentially other variants in the future. More recently, the Russia Ukraine Conflict has introduced a major uncertainty in the recovery of the global economy. Both the US and the EU have been experiencing high inflation due to supply chain bottlenecks, high energy and food prices, surging consumer demand and higher wages. The Russia Ukraine Conflict has exacerbated inflation by further pushing up the energy and food prices. Despite the global economy is facing a lot of uncertainties, developed economies such as the US and EU are lifting their quarantine restrictions, and daily lives in these economies have begun to return to normal. The Regional Comprehensive Economic Partnership ("**RCEP**") agreement has come into force in January 2022 and is expected to further boost the trades within the Asia Pacific region.

The PRC has been very successful in containing the Pandemic and enjoyed quick recovery in the second half of 2020, the momentum of which has continued into 2021 though its pace slowed down in the second half of 2021. The PRC government has announced a target growth rate of around 5.5% for 2022 and it is expected the PRC government will continue to release different policy measures to support the domestic economy.

Management Discussion and Analysis

BUSINESS REVIEW

The sales volume of yarn products of the Group increased by 3.1% from approximately 116,242 tonnes for the year ended 31 December 2020 to approximately 119,901 tonnes for the year ended 31 December 2021. The increase in sales volume was mainly due to the favourable market conditions caused by the economic recovery. The production volume of yarn products of the Group increased by 9.6% from approximately 114,032 tonnes for the year ended 31 December 2020 to approximately 124,996 tonnes for the year ended 31 December 2021. The production for the year ended 31 December 2020 was low due to delay in the resumption of production after the Chinese New Year Holidays as a result of the public health emergency and travel restriction measures under the Pandemic. However, there was no such delay for the year ended 31 December 2021. The revenue of the yarn products of the Group increased by 26.4% to approximately RMB1,640.9 million for the year ended 31 December 2021 as compared to RMB1,297.9 million for the year ended 31 December 2020. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2021 were approximately RMB317.5 million and approximately RMB202.5 million, respectively. In response to the change in market conditions, the Group has adjusted its product mix and shifted its emphasis to mass market products which were generally geared to downstream customers engaged in the PRC domestic market.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**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 decreased by 11.8% from approximately 35,534 tonnes (including 12,071 tonnes intersegment sales) for the year ended 31 December 2020 to approximately 31,324 tonnes (including 17,867 tonnes intersegment sales) for the year ended 31 December 2021. The production volume of PSF increased by 20.1% from approximately 28,413 tonnes for the year ended 31 December 2020 to approximately 34,117 tonnes for the year ended 31 December 2021.

With the progress in vaccination programs, different economies started to reopen in the 2021 but at different paces. The PRC government has been very successful in containing the Pandemic in the second quarter of 2020, the economy rebounded in the second half of 2020. The growth momentum continued into 2021 and consumer confident and retailed sales have increased. On the contrary, the countries in South Asia and Southeast Asia have not been able to contain the Pandemic successfully and their manufacturing industries have been adversely affected, resulting in a portion of orders flowed into the PRC. The above factors have contributed to a booming textile market in the PRC.

As the Group is confident about the future, it announced on 13 July 2021 a plan to construct a highly automated workshop with a capacity of 50,000 spindles ("the **New Workshop**"). The construction of the New Workshop has commenced in the third quarter of 2021 and the structural constructions of the New Workshop have been substantially completed as at the date of this annual report. Installation of production facilities is expected to commence in the second quarter of 2022 and be completed by the end of the second quarter of 2022. Trial production of the new production line is expected to commence in the third quarter of 2022. The new production line will be highly automated and it will achieve substantial savings in labour cost for, and increase the efficiency of, the Group.

As disclosed in the Company's announcement dated 6 August 2021, the Group entered into three significant contracts for purchase of production equipment at a total consideration of RMB61.1 million as part of the plan to construct the New Workshop. The purchase is still in progress up to the date of this report.

The Group also acquired the remaining 23% equity interests in Xinyuan from a non-controlling shareholder at a consideration approximately of RMB16.1 million in the second quarter of 2021. The Group considers its investment in Xinyuan which engaged in the upstream operation of the Group has strategic importance. The Directors also believe the acquisition will streamline the shareholding and improve the management efficiency.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2021 was approximately RMB1,724.3 million, representing an increase of approximately RMB303.2 million, or 21.3%, as compared to the corresponding period last year. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2021 RMB'000		Year ended 31 December 2020 RMB'000	
Polyester yarns	**485,695**	**28.2%**	474,458	33.4%
Polyester-cotton and viscose-cotton blended yarns	**781,297**	**45.3%**	579,116	40.8%
Grey and deep grey mélange yarns and grey mélange-cotton blended yarns	**361,689**	**21.0%**	174,299	12.3%
Viscose and stretchable core viscose yarns	**9,794**	**0.6%**	48,615	3.4%
Cotton yarns	**774**	**0.0%**	21,179	1.4%
Polyester staple fibres	**83,412**	**4.8%**	123,195	8.7%
Others	**1,654**	**0.1%**	215	0.0%
	1,724,315	**100.0%**	1,421,077	100.0%

The increase in the revenue of the Group for the year ended 31 December 2021 was mainly attributable to the increase in the average selling prices of the yarns products. The average selling price of yarn products of the Group increased 22.6% from approximately RMB11,165 per ton for the year ended 31 December 2020 to approximately RMB13,685 per ton for the year ended 31 December 2021. The increase in the average selling prices was mainly due to i) the favourable market conditions caused by the economic recovery and ii) the upward positive correlation between the selling prices of yarn products and prices of raw materials. The sales volume also increased by 3.1% from approximately 116,242 tonnes for the year ended 31 December 2020 to approximately 119,901 tonnes for the year ended 31 December 2021.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB143.2 million for the year ended 31 December 2020 to approximately RMB317.5 million for the year ended 31 December 2021. The gross profit margin of the Group increased from approximately 10.1% for the year ended 31 December 2020 to approximately 18.4% for the year ended 31 December 2021. The increase in gross profit was mainly due to the increase in the average selling prices of the yarn products. Due to the favourable market conditions driven by economic recovery and rising commodities prices, the textile market experienced a boom in 2021. The improvement in the product mix of the Group also contributed to the increase in the gross margin. In response to the increased market demand for grey and deep grey mélange yarns, the Group has increased the sales and production of such yarn products which delivered a higher margin than the other yarn products.

Other Income
Other income of the Group increased from approximately RMB29.2 million for the year ended 31 December 2020 to approximately RMB40.7 million for the year ended 31 December 2021, representing an increase of approximately RMB11.5 million or 39.4%. The increase in other income was mainly due to increase in income from scrap sales.

Other Gains and Losses
Other losses of the Group were approximately RMB17.6 million for the year ended 31 December 2021 as compared to other gains of approximately RMB3.5 million for the year ended 31 December 2020. Other losses were mainly due to the loss on disposal of plant and equipment.

Distribution and Selling Expenses
Distribution and selling expenses of the Group increased from approximately RMB26.5 million for the year ended 31 December 2020 to approximately RMB27.1 million for the year ended 31 December 2021, representing an increase of approximately RMB0.6 million or 2.3%. The increase in distribution and selling expenses was mainly due to the increase in sales volume. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.6% for the year ended 31 December 2021 (year ended 31 December 2020: 1.9%).

Administrative Expenses
Administrative expenses of the Group increased from approximately RMB49.2 million for the year ended 31 December 2020 to approximately RMB57.5 million for the year ended 31 December 2021, representing an increase of approximately RMB8.3 million or 16.9%. The increase in administrative expenses was mainly due to the payment of disabled persons' employment security fund of approximately RMB3.7 million and the increase in certain government taxes and levies. For the year ended 31 December 2020, there was wavier of certain government taxes and levies as part of the Pandemic relief measures. For the year ended 31 December 2021, there were no such relief measures. Administrative expenses as a percentage of revenue of the Group was approximately 3.3% for the year ended 31 December 2021 (year ended 31 December 2020: 3.5%).

Finance Costs
Finance costs of the Group decreased from approximately RMB29.4 million for the year ended 31 December 2020 to approximately RMB24.7 million for the year ended 31 December 2021, representing a decrease of approximately RMB4.7 million or 16.0%. The decrease in the Group's finance costs was mainly due to i) decrease in interest on the entrusted loan as the Group repaid such loan in the second half of 2020 and ii) decrease in interest on bank loans because the loan prime rates in the PRC were lower in the first half of 2021 as compared with the corresponding period in 2020.

Income Tax Expense
The Group's income tax increased from approximately RMB13.2 million for the year ended 31 December 2020 to approximately RMB31.0 million for the year ended 31 December 2021, representing an increase of 134.8% or approximately RMB17.8 million. The Group's effective income tax rate for the year ended 31 December 2021 was approximately 13.2%. (year ended 31 December 2020: 17.4%). The increase in income tax expense was mainly due to the increase in profits in the operating subsidiaries of the Group in the PRC.

Management Discussion and Analysis

Profit attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company increased from approximately RMB62.8 million for the year ended 31 December 2020 to approximately RMB202.5 million for the year ended 31 December 2021, representing an increase of 222.5% or approximately RMB139.7 million. The net profit margin of the Group for the year ended 31 December 2021 was approximately 11.7% as compared with approximately 4.4% for the year ended 31 December 2020. The increase in the Group's net profit margin was mainly due to the increase in gross profit.

Earnings per Share

The basic earnings per share of the Company for the year ended 31 December 2021 was approximately RMB16.17 cents as compared with approximately RMB5.01 cents per share for the year ended 31 December 2020. The increase in earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2021.

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 2021, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB283.0 million (31 December 2020: RMB184.6 million), pledged bank deposits of approximately RMB60.2 million (31 December 2020: RMB91.0 million) as at 31 December 2021. The Group's cash and bank balances were mainly held in Renminbi ("**RMB**").

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and Hong Kong dollars ("**HK$**"). As at 31 December 2021, the Group's interest-bearing borrowings amounted to approximately RMB553.2 million (31 December 2020: RMB508.9 million), RMB503.8 million (91.1%) of which (31 December 2020: RMB472.4 million (92.8%)) was repayable within one year or on demand. The Group's banking facilities were secured by its property, plant and equipment, right-of-use assets, and pledged bank deposits with a carrying value of approximately RMB511.2 million in aggregate (31 December 2020: RMB731.6 million).

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank and other borrowings, lease liabilities and bills payable to total assets, was approximately 35.5% as at 31 December 2021 (31 December 2020: 39.2%). Net current liabilities and net assets as at 31 December 2021 was approximately RMB109.6 million (31 December 2020: RMB298.8 million) and RMB781.2 million (31 December 2020: RMB629.2 million), respectively.

Management Discussion and Analysis

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, other receivables, bank and other borrowings, lease liabilities and other payables, which mainly expose the Group to risk in HK$ and United States dollars. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2021 were approximately RMB2.4 million (31 December 2020: RMB6.8 million) and RMB20.4 million (31 December 2020: RMB42.8 million), respectively. The Group had not used any financial instrument for hedging purposes during the year ended 31 December 2021.

Contingent Liabilities

As at 31 December 2021, the Group did not have any significant contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 31 December 2021, the Group had a total of 2,925 employees (31 December 2020: 3,046). 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 25 June 2021, under which the Company may grant options to eligible persons including Directors and employees. No share option has been granted pursuant to the scheme since its adoption.

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

The Group acquired the remaining 23% equity interests in Xinyuan from a non-controlling shareholder in May 2021 at a consideration of approximately RMB16.1 million.

As disclosed in the Company's announcement dated 6 August 2021, the Group entered into three significant contracts for purchase of production equipment at a total consideration of RMB61.1 million as part of the plan to construct the New Workshop.

Save as disclosed above, during the year ended 31 December 2021, the Group did not have any significant investments or acquisitions or disposal of subsidiaries.

Management Discussion and Analysis

PROSPECTS

In 2021, with the progress in vaccination programs, economic recovery throughout the world continued. Different economies started to reopen in 2021 but at different paces. The PRC has been very successful in containing the Pandemic and enjoyed quick recovery in the second half of 2020. The growth momentum in the PRC has continued in 2021 though its pace slowed down in the second half of 2021. On the contrary, the countries in South Asia and Southeast Asia have not been able to contain the Pandemic successfully and their manufacturing industries have been adversely affected. In the meantime, global consumer demand has picked up as different economies reopened during 2021 and the demand for anti-Pandemic supplies has persisted. As a result, a portion of manufacturing orders flowed into the PRC.

The GDP of the PRC has recorded an increase of around 8.1% for 2021 of which consumer consumption has contributed round 65%. The prosperity of domestic consumption has benefited the apparel and textile industries. The PRC government has announced a target growth rate of around 5.5% for 2022 and it is expected that domestic consumption will continue to make a significant contribution to this target. The PRC government has repeatedly emphasized the importance of internal economic circulation and it is expected it will provide favourable policy measures to promote domestic consumption. With the coming into force of the RCEP agreement in January 2022, it is expected intra-regional trade activities will be further enhanced.

The gradual recovery of the global economy has stimulated the demand for crude oil and other commodities. The upward moving crude oil price has pushed up the prices of oil related downstream products, including raw materials for polyester yarn products. Hence, the upward price trend of raw materials contributed to the increase in the selling prices of polyester yarn products in the 2021 accordingly. The above factors have contributed to a booming textile market in the PRC. It seems likely such trends will continue into 2022 and contribute to a favourable market for the textile industry.

The emergence of the Omicron and other new virus variants, the recent Russia Ukraine Conflict and high inflation resulting from high energy and food prices introduce risks and uncertainties to global economic recovery. However, the recovery of the global economy still appears to be robust and the PRC appears to be in a better position to navigate through the risks and uncertainties given its continuing successful containment of the Pandemic.

The Group is optimistic about the textile market and announced a plan to construct the New Workshop. The Group also acquired the remaining minority interests in Xinyuan to strengthen its interest in the upstream operation. The Group will continue to closely monitor the market conditions and take necessary measures to adjust its inventory level, production capacities, product mix and pricing strategy. The Group will continue to emphasize industrial safety and seek improvement in efficiency in the production process by means of automation. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group believes it is well positioned to take advantage of any boom in the textile industry.

Report of the Directors

The Directors are pleased to present their report and the consolidated audited financial statements for the year ended 31 December 2021.

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 staple fibres. Details of the principal activities of the principal subsidiaries of the Company are set out in Note 43 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 2021 and the financial position of the Group and the Company at that date are set out in the consolidated financial statements on pages 42 to 44 of this annual report and Note 41 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

Subsequent to the end of the reporting period, the Directors proposed the Final Dividend of HK5.0 cents per ordinary share to the Shareholders, details of which are disclosed in Note 17 to the consolidated financial statements of this annual report.

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 2021 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.

Report of the Directors

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 2021, the Group had over 2,100 customers. The Group does not rely on a few large customers. During the year ended 31 December 2021, sales to the Group's five largest customers accounted for 13.2% of the total sales of the Group for 2021 and sales to the largest customer included therein accounted for 4.7% 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 2021, the Group had around 60 major suppliers of raw materials. Purchases from the Group's five largest suppliers accounted for 44.7% of the total purchases of the Group for the year ended 31 December 2021 and purchases from the Group's largest supplier included therein accounted for 13.0% 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.

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.

DIVIDEND

The Board has recommended the payment of a dividend of HK5.0 cents per share of the Company in respect of the year ended 31 December 2021 to the Shareholders (the "Final Dividend"). Subject to Shareholders' approval of the proposed Final Dividend at the Annual General Meeting to be held on Wednesday, 29 June 2022, the Final Dividend will be paid on or around Monday, 25 July 2022, to Shareholders whose names appear on the register of members of the Company on Friday, 8 July 2022.

Report of the Directors

FINANCIAL SUMMARY

A summary of the financial information of the Group for the last five financial years (including the year ended 31 December 2021) is set out on page 118 of this annual report. This summary does not form part of the audited consolidated financial statements.

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 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company (the "**Shares**") during the year ended 31 December 2021.

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 2021, 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 RMB134 million.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2021, the Group did not make any charitable contribution.

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 Director:
Mr. Zheng Hong *(Chairman)*

Independent Non-Executive Directors:
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing

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

By virtue of Article 84 of the Articles, all the Directors who retire at the forthcoming annual general meeting of the Company to be held on 29 June 2022 (the "**Annual General Meeting**"), being eligible, will offer themselves for re-election.

As such, Mr. Zheng Hong and Mr. Xu Yiliang 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 32 to 34 of this annual report.

Report of the Directors

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 2020 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 2020. 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 2021.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2021, 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	92,681,200 shares	7.40%

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 2021, 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 25 June 2021, 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 was conditionally adopted on 25 June 2021 and took effect on 29 June 2021 upon satisfaction of the relevant conditions, and shall expire on 24 June 2031, being the date immediately prior to the 10th anniversary of the adoption date of the Scheme. The remaining life of the Scheme is approximately 9.2 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 employee (including senior executives, officers and managers), directors (including executive, non-executive and independent non-executive directors) and any consultant(s) of the Company or any of its subsidiaries who, as determined by the Board, have contributed or will contribute to the growth and development of the Group.

Report of the Directors

The total number of Shares 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 at the date of approval of the Scheme, being 125,235,000 Shares, representing approximately 10% of the issued share capital of the Company as at the date of the Scheme. 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 specified by the Company.

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 in aggregate 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 more than 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 10 business 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 higher of:

i. the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of the offer of the grant, and

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

The exercise period for the share options granted is determined by the Board in its absolute discretion, which 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) 25 June 2031.

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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2021, so far as is known to any Director or chief executive of the Company, the persons or corporations (other than a 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 2021.

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 2021 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 2021.

Exempt Connected Transactions

In 2021, certain unsecured loans ranging from RMB3,000,000 to RMB40,000,000 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 were fully settled during the year ended 31 December 2021. Jiangxi Baoyuan is considered as a connected party of the Company since its 89% equity interest is held by a close family member of two Directors.

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

Save as disclosed above, none of other related party transactions as set out in Note 38 to the consolidated financial statements constitute non-exempt connected transactions of the Group in accordance with the Listing Rules during the year ended 31 December 2021.

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 2021.

Report of the Directors

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 24 June 2022 to Wednesday, 29 June 2022 (both days inclusive), during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 23 June 2022.

For the purpose of determining the Shareholders who are entitled to the proposed Final Dividend, which is subject to the approval of the Shareholders at the Annual General Meeting, the register of members of the Company will be closed from Thursday, 7 July 2022 to Friday, 8 July 2022 (both days inclusive). During this period, no transfer of shares will be registered. In order to qualify for the Final Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 6 July 2022.

AUDITOR

The consolidated financial statements for the year ended 31 December 2021 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

The PRC, 29 March 2022

Corporate Governance Report

The Board hereby presents this Corporate Governance Report for the year ended 31 December 2021.

A. CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2021, 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 D2.5 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 organisational 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 2021.

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 2020 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 2020. 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)*

Independent Non-Executive Directors:
Ms. Zhang Baixiang
Mr. Xu Yiliang
Mr. Li Guoxing

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 2021, 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	4	1	1	2	1
Executive Director:					
Mr. Zheng Yongxiang	4/4	–	–	–	1/1
Non-Executive Director:					
Mr. Zheng Hong	2/4	1/1	1/1	–	1/1
Independent Non-Executive Directors:					
Ms. Zhang Baixiang	4/4	1/1	1/1	2/2	1/1
Mr. Xu Yiliang	4/4	1/1	1/1	2/2	1/1
Mr. Li Guoxing	4/4	1/1	1/1	2/2	1/1

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

Board Committees

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

Remuneration Committee

A remuneration committee was established by the Company on 3 December 2011 (the "**Remuneration Committee**") with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to the Directors and members of senior management of the Group. Mr. Xu Yiliang, an independent non-executive Director, is the chairman of the Remuneration Committee. 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 2021, one meeting was held by the Remuneration Committee. The Remuneration Committee reviewed and approved the remuneration packages of the Directors and senior management.

The remuneration of the members of the senior management of the Group by band for the year ended 31 December 2021 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 and Mr. Li Guoxing 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 2021, one meeting was held by the Nomination Committee. The Nomination Committee reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and assessed the independence of all the independent non-executive Directors.

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 and Mr. Li Guoxing. Ms. Zhang Baixiang is the chairman of the Audit Committee.

During the year ended 31 December 2021, the Audit Committee had two meetings and performed the following work:

- Review of the annual financial results for the year ended 31 December 2020 and interim financial results for the six months ended 30 June 2021 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 the audit plan and 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 2021 had been reviewed by the Audit Committee.

Training for Directors

During the year ended 31 December 2021, the Directors participated in the following trainings:

	Type of training
Executive Director:	
Mr. Zheng Yongxiang	A, B
Non-Executive Director:	
Mr. Zheng Hong	B
Independent Non-Executive Directors:	
Mr. Xu Yilioang	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 matters.

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 2021, 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.

As at the date of this report, the diversity profile of the Board was summarized as follows:

	Mr. Zheng Hong	**Mr. Zheng Yongxiang**	**Mr. Xu Yiliang**	**Ms. Zhang Baixiang**	**Mr. Li Guoxing**
Gender	Male	Male	Male	Female	Male
Designation	Non-executive director	Executive director	Independent non-executive director	Independent non-executive director	Independent non-executive director
Age	46	53	61	61	51
Length of Service (up to the date of this report)	11 years	11 years	5.5 years	7.4 years	2.4 years
Skill, knowledge and professional experience					
– Accounting and finance				✓	
– Banking and capital market			✓		✓
– Business management	✓	✓	✓		
– Legal/Regulatory				✓	✓
– Related industry knowledge/ experience	✓	✓			
– Strategic planning and risk management	✓	✓	✓		

Dividend Policy

The Company has adopted a dividend policy under which, 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 2021, the Group's current liabilities exceeded its current assets by approximately RMB109,615,000. 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, that it may be unable to realise its assets and discharge it liabilities in the normal course of business. The directors have reviewed the Group's cash flow projections in which the level of the demand of the Group's products and the potential implications of the COVID-19 have been considered. The projection covers a period of 12 months from 31 December 2021. The directors have a reasonable expectation that, after taking into account the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months:

(a) The Group can successfully obtain its bankers' approval for rollover of its short term bank borrowings. Up to the date of the consolidated financial statements were authorised for issue, certain bankers have renewed or agreed to renew the Group's bank borrowings amounting to approximately RMB119,480,000 currently included in current liabilities at 31 December 2021.

(b) The Group will also continue to seek for further financing. Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.

(c) In the light of the COVID-19 pandemic, the Group is closely monitoring the latest developments and will continue to assess the impact of the COVID-19 pandemic, as well as any change in government policy, on the Group's operations from time to time and adjust its production and sales strategies for its business to generate sufficient operating cash flows.

Having taken into account the above plans and measures, the directors are of the opinion that the Group should be able to operate within the level of its current banking facilities and will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months. 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 35 to 41.

Auditor's Remuneration

During the year ended 31 December 2021, the Group has incurred auditor's remuneration in respect of audit and non-audit services of approximately RMB1,067,000 and RMB231,000, 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 meetings. 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.

Corporate Governance 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 2021.

Directors and Senior Management

EXECUTIVE DIRECTOR

Zheng Yongxiang (鄭永祥), aged 53, was appointed as an executive Director on 4 May 2011. Mr. Zheng Yongxiang has over 20 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 46, 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 21 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.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Zhang Baixiang (張百香), aged 61, was appointed as an independent non-executive Director on 27 November 2014. Ms. Zhang has over 35 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 61, was appointed as an independent non-executive Director on 20 October 2016. Mr. Xu has over 40 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 51, was appointed as an independent non-executive Director on 5 December 2019. Mr. Li has over 19 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 52, 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 31 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 39, 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 16 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 59, 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 30 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 42 to 117, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 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 RMB109,615,000 as at 31 December 2021. 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 property, plant and equipment and right-of-use assets

2. Impairment assessment of goodwill

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 20 to the consolidated financial statements* In view of the significant improvement in the financial performance of the reporting segment of manufacturing and trading of polyester staple fibres as compared to the corresponding year of 2020 which is mainly attributed to management's appropriate change of production and sales strategies, and an increase in price of polyester staple fibres, management performed a re-assessment of the impairment previously made against the property, plant and equipment and right-of-use assets belong to the staple fibres cash-generating unit ("**CGU**") as at 31 December 2021 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.	Our procedures included: – Understanding management's process of impairment assessment of property, plant and equipment and right-of-use assets belonging to the CGU of manufacturing and trading of polyester staple fibres and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors; – Reviewing management's assessment of the indications that the impairment previously made might have decreased; – Evaluating the expertise and independence of the external valuer; – Challenging the reasonableness of management's key assumptions underlying the cash flow forecasts in the valuation model, with reference to the historical budgets and performance of the CGU and the reasons for any deviations, our understanding of the business and independent market data;

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 (Continued) *Refer to Notes 19 and 20 to the consolidated financial statements* (Continued) A reversal of impairment losses on property, plant and equipment and right-of-use assets of approximately RMB3,908,000 and RMB273,000 respectively were recognised during the year ended 31 December 2021. As at 31 December 2021, the carrying amounts of property, plant and equipment and right-of-use assets belong to the CGU of manufacturing and trading of polyester staple fibres, were approximately RMB33,923,000 and RMB7,551,000 respectively.	Our procedures included (Continued): – 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 independent 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 goodwill	
Refer to Note 21 to the consolidated financial statements	Our procedures included:
As at 31 December 2021, 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 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. Management has concluded that there is no impairment in respect of the goodwill allocated to the CGU as the CGU recoverable amount exceeded its carrying amount.	– Understanding management's process of impairment assessment of goodwill and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and other inherent risk factors; – Evaluating the expertise and independence of the external valuer; – Challenging the reasonableness of management's key assumptions underlying the cash flow forecasts in the valuation model, with reference to the historical budgets and performance of the CGU and the reasons for any deviations, our understanding of the business and independent market data; – 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 independent 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 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)

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

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

We communicate with the Audit Committee, 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, actions taken to eliminate threats or safeguards applied.

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

29 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Revenue	9	**1,724,315**	1,421,077
Cost of sales		**(1,406,810)**	(1,277,914)
Gross profit		**317,505**	143,163
Other income	10	**40,656**	29,215
Other gains and losses	11	**(17,646)**	3,489
Distribution and selling expenses		**(27,082)**	(26,543)
Administrative expenses		**(57,517)**	(49,217)
Reversal of impairment loss on property, plant and equipment	19	**3,908**	5,158
Reversal of impairment loss on right-of-use assets	20	**273**	134
Profit from operations		**260,097**	105,399
Finance costs	12	**(24,697)**	(29,387)
Profit before tax		**235,400**	76,012
Income tax expense	13	**(31,001)**	(13,208)
Profit and total comprehensive income for the year	14	**204,399**	62,804
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**202,544**	62,750
Non-controlling interests		**1,855**	54
		204,399	62,804
Earnings per share	18		
– Basic		**RMB16.17 cents**	RMB5.01 cents
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

At 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	19	**899,158**	911,698
Right-of-use assets	20	**48,316**	74,906
Deposits on acquisition of property, plant and equipment		**10,267**	11
Goodwill	21	**20,617**	20,617
Deferred tax assets	32	**5,412**	–
		983,770	1,007,232
Current assets			
Inventories	22	**314,647**	182,665
Trade and other receivables	23	**47,498**	37,505
Bills receivable	24	**370**	5,570
Pledged bank deposits	25	**60,246**	90,976
Cash and bank balances	25	**283,034**	184,606
		705,795	501,322
Current liabilities			
Trade and other payables	26	**215,454**	213,820
Contract liabilities	27	**24,763**	16,821
Bills payable	28	**47,319**	83,000
Deferred income	29	**264**	264
Lease liabilities	30	**2,765**	16,512
Bank and other borrowings	31	**501,061**	455,899
Current tax liabilities		**23,784**	13,783
		815,410	800,099
Net current liabilities		**(109,615)**	(298,777)
Total assets less current liabilities		**874,155**	708,455

Consolidated Statement of Financial Position (Continued)

At 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Deferred income	29	**6,566**	6,830
Lease liabilities	30	**–**	1,046
Bank and other borrowings	31	**49,413**	35,476
Deferred tax liabilities	32	**36,982**	35,868
		92,961	79,220
Net assets		**781,194**	629,235
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	33	**101,989**	101,989
Reserves		**679,205**	529,913
		781,194	631,902
Non-controlling interests		**–**	(2,667)
Total equity		**781,194**	629,235

Approved by the Board of Directors on 29 March 2022 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 2021

	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000 (Note 42(b)(i))	PRC statutory reserves RMB'000 (Note 42(b)(ii))	Special reserve RMB'000 (Note 42(b)(iii))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2020	101,989	73,903	114,508	148,739	129,770	568,909	(2,721)	566,188
Profit and total comprehensive income for the year	–	–	–	–	62,750	62,750	54	62,804
Transfer	–	–	11,225	–	(11,225)	–	–	–
Forfeiture of unclaimed dividends	–	–	–	–	243	243	–	243
At 31 December 2020 and 1 January 2021	101,989	73,903	125,733	148,739	181,538	631,902	(2,667)	629,235
Profit and total comprehensive income for the year	–	–	–	–	202,544	202,544	1,855	204,399
Acquisition of remaining interest in a subsidiary (Note 36(c))	–	–	–	–	(16,912)	(16,912)	812	(16,100)
Transfer	–	–	50,075	–	(50,075)	–	–	–
Dividends (Note 17)	–	(20,829)	–	–	(15,511)	(36,340)	–	(36,340)
At 31 December 2021	**101,989**	**53,074**	**175,808**	**148,739**	**301,584**	**781,194**	**–**	**781,194**

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**235,400**	76,012
Adjustments for:		
Amortisation of deferred income	**(264)**	(389)
Depreciation of property, plant and equipment	**65,742**	58,753
Depreciation of right-of-use assets	**2,826**	5,896
Loss on disposal of property, plant and equipment	**17,939**	316
Allowance for inventories/(Reversal of allowance for inventories)	**1,093**	(2,110)
Inventories damaged by rainstorm	**–**	495
Reversal of impairment loss on property, plant and equipment	**(3,908)**	(5,158)
Reversal of impairment loss on right-of-use assets	**(273)**	(134)
Interest income	**(4,869)**	(1,173)
Interest expenses	**24,697**	29,387
Net foreign exchange gain	**(780)**	(2,563)
Operating cash flows before movements in working capital	**337,603**	159,332
(Increase)/Decrease in inventories	**(133,075)**	24,737
(Increase)/Decrease in trade and other receivables	**(9,993)**	10,347
Decrease in bills receivable	**5,200**	4,647
Decrease in trade and other payables	**(756)**	(70,837)
Increase/(Decrease) in contract liabilities	**7,942**	(99)
(Decrease)/Increase in bills payable	**(35,681)**	1,854
Cash generated from operations	**171,240**	129,981
Interest paid	**(24,489)**	(28,853)
Interest on lease liabilities	**(192)**	(668)
Income tax paid, net	**(25,298)**	(4,406)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**121,261**	96,054

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2021

	Note	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of pledged bank deposits		**(106,617)**	(141,492)
Withdrawal of pledged bank deposits		**137,347**	84,323
Interest received		**4,869**	1,173
Purchase of property, plant and equipment		**(44,247)**	(13,826)
Proceeds from disposal of property, plant and equipment		**3,915**	252
Deposits paid for acquisition of property, plant and equipment		**(10,267)**	–
NET CASH USED IN INVESTING ACTIVITIES		**(15,000)**	(69,570)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance from a related company		**52,000**	54,500
Repayment to a related company		**(52,000)**	(54,500)
Dividends paid to the owners of the Company		**(36,340)**	(35)
Proceeds from bank and other borrowings		**522,414**	513,420
Repayment of bank and other borrowings		**(462,818)**	(435,838)
Repayment of entrusted loan		**–**	(50,000)
Principal element of lease payments		**(14,989)**	(5,510)
Decrease in restricted bank deposit		**–**	500
Acquisition of remaining interest in a subsidiary	36(c)	**(16,100)**	–
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(7,833)**	22,537
NET INCREASE IN CASH AND CASH EQUIVALENTS		**98,428**	49,021
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**184,606**	135,585
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**283,034**	184,606
ANALYSIS OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**283,034**	184,606

Notes to the Consolidated Financial Statements

For the year ended 31 December 2021

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 staple fibres.

These consolidated financial statements for the year ended 31 December 2021 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 Companies Ordinance. Significant accounting policies adopted by the Group are disclosed below.

A number of new or revised IFRSs are first effective for the current accounting period of the Group. Note 3 provides information of these developments which are relevant to the Group's operations. The application of these developments did not have material impact on the Group.

2. BASIS OF PREPARATION (Continued)

As of 31 December 2021, the Group's current liabilities exceeded its current assets by approximately RMB109,615,000. 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, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors have reviewed the Group's cash flow projections in which the level of the demand of the Group's products and the potential implications of COVID-19 have been considered. The projection covers a period of 12 months from 31 December 2021. The directors have a reasonable expectation that, after taking into account the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months:

(a) The Group can successfully obtain its bankers' approval for rollover of its short term bank borrowings. Up to the date of the consolidated financial statements were authorised for issue, certain bankers have renewed or agreed to renew the Group's bank borrowings amounting to approximately RMB119,480,000 currently included in current liabilities at 31 December 2021.

(b) The Group will also continue to seek for further financing. Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.

(c) In the light of the COVID-19 pandemic, the Group is closely monitoring the latest developments and will continue to assess the impact of the COVID-19 pandemic, as well as any change in government policy, on the Group's operations from time to time and adjust its production and sales strategies for its business to generate sufficient operating cash flows.

Having taken into account the above plans and measures, the directors are of the opinion that the Group should be able to operate within the level of its current banking facilities and will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding the above, significant uncertainties exist. The current economic conditions continue to create uncertainty particularly over the level of demand for the Group's products and the availability of bank finance for the foreseeable future.

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 the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED IFRSs

(a) Application of new and revised IFRSs

The Group has applied the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phrase 2

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("**IBOR reform**").

The Group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform. The application of the amendments to IFRSs in the current year had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

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

The Group has not applied any new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2021. 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 Business Combinations – Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16 Property Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018 – 2020 Cycle	1 January 2022
Amendments to IAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

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.

(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 assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. 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 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, with the effect of any changes in estimate accounted for on a prospective basis.

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

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)

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 lease liability is remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

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 contracts

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 the below post-employment schemes which are defined contribution pension plans:

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 required to participate in a central pension scheme operated by the local municipal government of the PRC. These subsidiaries are required to contribute a fixed rate of 16% (2020: 16% subject to the COVID-19-pandemic-related concession granted by the government in 2020) of their relevant payroll costs to the central pension scheme. 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. 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 or indications that an impairment loss recognised in prior periods may no longer exist or may have decreased. 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. Where an impairment loss is reversed, the carrying amount of the asset is increased to its recoverable amount but not in excess of the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. 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 financial 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.

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 Group has considered the impact arising from COVID-19 when preparing the consolidated financial statements. Assumptions and estimates are based on circumstances and conditions available when the consolidated financial statements were prepared and, in particular, the Group has assessed that the current market condition as a result of COVID-19 is not a long-term norm. Although such assumptions and estimates contemplate current and expected future conditions that the Group considers are relevant and reasonable, it is reasonably possible that actual conditions could differ significantly from current expectations. As there remain challenges and uncertainties arising from COVID-19, the assumptions and estimates may change over time in response to how market conditions develop.

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 RMB31,001,000 (2020: RMB13,208,000) 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 assessment 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 recoverable amounts.

Furthermore, the cash flows projections, growth rate and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve.

The carrying amount of property, plant and equipment and right-of-use assets at 31 December 2021 were approximately RMB899,158,000 (2020: RMB911,698,000) and RMB48,316,000 (2020: RMB74,906,000) respectively.

(c) Impairment assessment 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. Where the actual future cash flows are less than the expected, or change in facts and circumstances which results in downward revision of future cash flows or upward revision of discount rate, a material impairment loss or further impairment loss may arise.

Furthermore, the cash flows projections, growth rate and discount rate are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve.

The carrying amount of goodwill at the end of the reporting period was approximately RMB20,617,000 (2020: 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 profits 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 32.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(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 RMB1,093,000 was made for the year ended 31 December 2021 (2020: A reversal of allowance for inventories of approximately RMB2,110,000).

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 2021, if RMB had weakened 5 per cent against US$ with all other variables held constant, consolidated profit after tax would have been approximately RMB84,000 lower (2020: RMB121,000 higher), arising mainly as a result of the foreign exchange loss on bank and other borrowings (2020: foreign exchange gain on cash and bank balances and pledged bank deposits) denominated in US$. If RMB had strengthened 5 per cent against US$ with all other variables held constant, consolidated profit after tax would have been approximately RMB84,000 higher (2020: RMB121,000 lower), arising mainly as a result of the foreign exchange gain on bank and other borrowings (2020: foreign exchange loss on cash and bank balances and pledged bank deposits) denominated in US$.

At 31 December 2021, if RMB had weakened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax would have been approximately RMB658,000 (2020: RMB1,581,000) lower, arising mainly as a result of the foreign exchange loss on bank and other borrowings, lease liabilities and other payables denominated in HK$. If RMB had strengthened 5 per cent against HK$ with all other variables held constant, consolidated profit after tax would have been approximately RMB658,000 (2020: RMB1,581,000) higher, arising mainly as a result of the foreign exchange gain on bank and other borrowings, lease liabilities 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 and cash and bank balances.

The Group's exposure to credit risk arising from bills receivable, 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% (2020: 100%) 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 2021.

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 RMB109,615,000 (2020: RMB298,777,000) at 31 December 2021. Up to the date of these consolidated financial statements were authorised for issue, certain banks renewed or agreed to renew bank loans amounting to approximately RMB119,480,000. 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 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 2021				
Trade and other payables	**187,230**	**–**	**–**	**187,230**
Bills payable	**47,319**	**–**	**–**	**47,319**
Lease liabilities	**2,781**	**–**	**–**	**2,781**
Bank and other borrowings	**515,343**	**2,835**	**49,977**	**568,155**
	752,673	**2,835**	**49,977**	**805,485**
At 31 December 2020				
Trade and other payables	193,568	–	–	193,568
Bills payable	83,000	–	–	83,000
Lease liabilities	16,581	1,063	–	17,644
Bank and other borrowings	468,993	31,853	4,642	505,488
	762,142	32,916	4,642	799,700

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 will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	On demand or less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total undiscounted cash flows
At 31 December 2021				
Trade and other payables	**187,230**	**–**	**–**	**187,230**
Bills payable	**47,319**	**–**	**–**	**47,319**
Lease liabilities	**2,232**	**576**	**–**	**2,808**
Bank and other borrowings	**507,163**	**6,652**	**54,749**	**568,564**
	743,944	**7,228**	**54,749**	**805,921**
At 31 December 2020				
Trade and other payables	193,568	–	–	193,568
Bills payable	83,000	–	–	83,000
Lease liabilities	7,603	7,146	3,310	18,059
Bank and other borrowings	456,962	35,800	13,524	506,286
	741,133	42,946	16,834	800,913

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 lease liabilities.

The Group's exposure to cash flow interest rate risk relates primarily to variable rate bank and other borrowings and lease liabilities 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:

	2021 RMB'000	2020 RMB'000
Fixed rate financial liabilities		
Bank and other borrowings	**(459,064)**	(437,124)
Lease liabilities	**(1,063)**	(2,497)
Variable rate financial assets/(liabilities)		
Bank deposits	**343,204**	275,302
Bank and other borrowings	**(91,410)**	(54,251)
Lease liabilities	**(1,702)**	(15,061)

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, 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 outstanding at the end of reporting period were outstanding for the whole year.

At 31 December 2021, if interest rates had been 50 basis points (2020: 50 basis points) higher, with all other variables held constant, consolidated profit after tax would have been increased by approximately RMB1,078,000 (2020: RMB891,000). If the interest rate had been 50 basis points (2020: 50 basis points) lower or reduced to nil, whichever is higher, with all other variables held constant, consolidated profit after tax would have been decreased by approximately RMB597,000 (2020: RMB661,000). 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 2021

	2021 RMB'000	2020 RMB'000
Financial assets:		
Financial assets at amortised cost	**356,474**	286,598
Financial assets at FVTPL – bills receivable	**370**	5,570
Financial liabilities:		
Financial liabilities at amortised cost	**785,023**	767,943

(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 2021:

Description	Fair value measurement using Level 2 2021 RMB'000	2020 RMB'000
Recurring fair value measurements:		
Financial assets		
Financial assets at FVTPL – bills receivable	**370**	5,570

(b) Disclosure of valuation techniques and key inputs used in fair value measurements at 31 December 2021:

Level 2 fair value measurements

Description	Valuation technique	Key input	Fair value 2021 RMB'000	2020 RMB'000
Bills receivable	Discounted cash flows	Discount rate	**370**	5,570

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 director of the Company.

During the year ended 31 December 2021, 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 accounting policies of the reportable segments are the same as those described in note 4 to the consolidated financial statements. Segment profits or losses do not include government grants, corporate income, gains and losses, unallocated administrative expenses and income tax expense.

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 2021			
Revenue from external customers	**1,640,903**	**83,412**	**1,724,315**
Intersegment revenue	**–**	**108,029**	**108,029**
Interest income	**4,835**	**33**	**4,868**
Interest expense	**(20,522)**	**(4,175)**	**(24,697)**
Depreciation	**(65,100)**	**(2,920)**	**(68,020)**
Other material non-cash items:			
Reversal of impairment loss on property, plant and equipment	**–**	**3,908**	**3,908**
Reversal of impairment loss on right-of-use assets	**–**	**273**	**273**
Allowance for inventories	**–**	**(1,093)**	**(1,093)**
Profit of reportable segments	**217,035**	**11,434**	**228,469**
Year ended 31 December 2020			
Revenue from external customers	1,297,882	123,195	1,421,077
Intersegment revenue	–	61,902	61,902
Interest income	1,067	84	1,151
Interest expense	(24,895)	(4,492)	(29,387)
Depreciation	(61,281)	(2,745)	(64,026)
Other material non-cash items:			
Reversal of impairment loss on property, plant and equipment	–	5,158	5,158
Reversal of impairment loss on right-of-use assets	–	134	134
Reversal of allowance for inventories	–	2,110	2,110
Inventories damaged by rainstorm	(495)	–	(495)
Profit of reportable segments	67,119	143	67,262

8. SEGMENT INFORMATION (Continued)

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

	2021 RMB'000	2020 RMB'000
Revenue		
Total revenue of reportable segments	**1,832,344**	1,482,979
Elimination of intersegment revenue	**(108,029)**	(61,902)
Group's revenue	**1,724,315**	1,421,077
Profit or loss		
Total profit of reportable segments	**228,469**	67,262
Elimination of intersegment losses/(gains)	**421**	(228)
Adjusted for income in relation to government grants	**8,593**	10,705
Unallocated expense, net:		
Other income, gains and losses	**139**	673
Administrative and other expenses	**(2,222)**	(2,400)
Income tax expense	**(31,001)**	(13,208)
Group's profit for the year	**204,399**	62,804

Geographical information

Over 99% (2020: 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% (2020: 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 2021 and 2020.

9. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and staple fibres. 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:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Sales of yarns	**1,640,903**	1,297,882
Sales of staple fibres	**83,412**	123,195
	1,724,315	1,421,077

10. OTHER INCOME

	2021 RMB'000	2020 RMB'000
Income from scrap sales	**26,069**	16,278
Interest income	**4,869**	1,173
Government grants (Note)	**8,593**	10,705
Rental income	**808**	864
Others	**317**	195
	40,656	29,215

Note: For the year ended 31 December 2021, government grants mainly represent:

(a) Subsidies of approximately RMB8,329,000 (2020: RMB9,703,000) received by the Group for rewarding the Group's past contribution to Fengxin County, Jiangxi Province. The grants, at the discretion of the relevant authorities, 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 RMB8,329,000 (2020: RMB9,703,000) was recognised in profit or loss when the grants were received.

(b) Amounts transferred from deferred income of approximately RMB264,000 (2020: RMB389,000) 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 was amortised on a straight-line basis over the life of the corresponding land use rights. The refund of construction cost of building premises was amortised on a straight-line basis over the estimated useful lives of building premises upon completion of the construction.

11. OTHER GAINS AND LOSSES

	2021 RMB'000	2020 RMB'000
Net foreign exchange gains	**293**	2,043
Loss on disposal of property, plant and equipment	**(17,939)**	(316)
Fair value gain on financial assets at FVTPL	**–**	1,801
Others	**–**	(39)
	(17,646)	3,489

12. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on bank and other borrowings	**24,505**	26,194
Interest on entrusted loans	**–**	2,525
Interest on lease liabilities	**192**	668
	24,697	29,387

13. INCOME TAX EXPENSE

	2021 **RMB'000**	2020 RMB'000
Current tax		
PRC Corporate Income Tax ("**CIT**")		
Provision for the year	**36,850**	10,946
Over-provision in prior year	**(1,551)**	(403)
	35,299	10,543
Deferred tax (Note 32)		
Origination and reversal of temporary differences	**(4,298)**	2,665
Total	**31,001**	13,208

No provision for Hong Kong Profits Tax for the years ended 31 December 2021 and 2020 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 CIT 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 CIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2021 and 2020.

Huachun, the Company's subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2019. As such, Huachun is entitled to a preferential tax rate of 15% for the years ended 31 December 2021 and 2020.

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

13. INCOME TAX EXPENSE (Continued)

According to the PRC CIT 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 profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2021 RMB'000	2020 RMB'000
Profit before tax	**235,400**	76,012
Tax at the applicable rates in the jurisdictions concerned	**36,474**	10,938
Tax effect of income not taxable for tax purpose	**(75)**	(226)
Tax effect of expenses not deductible for tax purpose	**1,968**	1,623
Tax effect of temporary differences not recognised	**(1,789)**	(2,692)
Tax effect of preferential deduction of expenses	**(4,641)**	–
Tax effect of unused tax losses not recognised	**823**	3,976
Tax effect of recognition of tax losses not previously recognised	**(5,412)**	–
Tax effect of utilisation of tax losses not previously recognised	**(1,940)**	(225)
Over-provision in prior year	**(1,551)**	(403)
Withholding tax on dividend declared by Jiangxi Jinyuan	**4,750**	2,000
Withholding tax on undistributed profits of Jiangxi Jinyuan	**1,841**	115
Withholding tax arising from interest income	**–**	30
Others	**553**	(1,928)
Income tax expense for the year	**31,001**	13,208

14. PROFIT FOR THE YEAR

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

	2021 RMB'000	2020 RMB'000
Auditor's remuneration		
– Audit	**1,067**	923
– Others	**231**	229
	1,298	1,152
Cost of inventories sold	**1,406,810**	1,277,914
Allowance for inventories/(Reversal of allowance for inventories) (included in cost of inventories sold)	**1,093**	(2,110)
Inventories damaged by rainstorm (included in other losses)	**–**	495
Depreciation on property, plant and equipment	**65,742**	58,753
Depreciation on right-of-use assets	**2,826**	5,896

Cost of inventories sold includes employee benefits expense, depreciation on property, plant and equipment and depreciation on right-of-use assets of approximately RMB182,847,000 (2020: RMB153,908,000), RMB56,763,000 (2020: RMB54,548,000) and RMB1,279,000 (2020: RMB4,276,000) respectively, which are included in the amounts disclosed in Note 15 and separately above.

15. EMPLOYEE BENEFITS EXPENSE

	2021 RMB'000	2020 RMB'000
Employee benefits expense (excluding directors' emoluments):		
Salaries, bonuses and allowances	**193,093**	162,792
Retirement benefits scheme contributions (Note)	**5,525**	4,338
	198,618	167,130

Note: The Group's contributions under the defined contribution pension schemes in Hong Kong and the PRC are charged to profit or loss as they become payable in accordance with the relevant rules and regulations and not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

Five highest paid individuals:

The five highest paid individuals in the Group during the year included two (2020: 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 (2020: three) individuals are set out below:

	2021 RMB'000	2020 RMB'000
Basic salaries and allowances	**1,456**	1,557
Retirement benefits scheme contributions	**50**	53
	1,506	1,610

	2021	2020
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	Retirement benefits scheme contributions RMB'000	2021 Total RMB'000
Name of directors				
Executive director				
– Mr. Zheng Yongxiang	**–**	**1,001**	**21**	**1,022**
Non-executive director				
– Mr. Zheng Hong	**–**	**1,245**	**15**	**1,260**
Independent non-executive directors				
– Ms. Zhang Baixiang	**82**	**–**	**–**	**82**
– Mr. Xu Yiliang	**82**	**–**	**–**	**82**
– Mr. Li Guoxing	**82**	**–**	**–**	**82**
Total for 2021	**246**	**2,246**	**36**	**2,528**

16. BENEFITS AND INTERESTS OF DIRECTORS (Continued)

(a) Directors' emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Retirement benefits scheme contributions RMB'000	2020 Total RMB'000
Name of directors				
Executive director				
– Mr. Zheng Yongxiang	–	1,072	21	1,093
Non-executive director				
– Mr. Zheng Hong	–	1,333	16	1,349
Independent non-executive directors				
– Ms. Zhang Baixiang	88	–	–	88
– Mr. Xu Yiliang	87	–	–	87
– Mr. Li Guoxing	88	–	–	88
Total for 2020	263	2,405	37	2,705

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 2021 and 2020.

(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

	2021 RMB'000	2020 RMB'000
2020 Final dividend of HK2.0 cents per ordinary share out of share premium account	**20,829**	–
2021 Interim dividend of HK1.5 cents per ordinary share	**15,511**	–
	36,340	–

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2021 of HK5.0 cents per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

18. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2020: 1,252,350,000) in issue during the year:

	2021 RMB'000	2020 RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**202,544**	62,750

	2021 '000	2020 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,252,350**	1,252,350

No diluted earnings per share has been presented as there were no potential dilutive shares outstanding for the years ended 31 December 2021 and 2020.

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 2020	647,051	342	747,231	7,755	10,548	1,695	1,414,622
Additions	105	–	8,501	421	162	–	9,189
Construction expenditure capitalised	–	–	–	–	–	4,727	4,727
Disposals	–	–	(1,423)	(28)	(1,646)	–	(3,097)
At 31 December 2020	647,156	342	754,309	8,148	9,064	6,422	1,425,441
Additions	–	–	7,673	72	522	–	8,267
Construction expenditure capitalised	–	–	–	–	–	38,381	38,381
Transfer from construction in progress	4,403	–	–	–	–	(4,403)	–
Transfer from right-of-use assets	–	–	32,107	–	–	–	32,107
Disposals	–	–	(39,949)	(966)	(1,153)	–	(42,068)
At 31 December 2021	**651,559**	**342**	**754,140**	**7,254**	**8,433**	**40,400**	**1,462,128**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2020	161,289	342	287,869	4,724	7,570	883	462,677
Charge for the year	19,129	–	38,415	675	534	–	58,753
Reversal of impairment loss	(3,337)	–	(1,656)	–	–	(165)	(5,158)
Disposals	–	–	(1,038)	(27)	(1,464)	–	(2,529)
At 31 December 2020	177,081	342	323,590	5,372	6,640	718	513,743
Charge for the year	20,185	–	43,853	907	797	–	65,742
Transfer from right-of-use assets	–	–	7,607	–	–	–	7,607
Reversal of impairment loss	(2,605)	–	(1,166)	–	–	(137)	(3,908)
Disposals	–	–	(18,346)	(869)	(999)	–	(20,214)
At 31 December 2021	**194,661**	**342**	**355,538**	**5,410**	**6,438**	**581**	**562,970**
CARRYING AMOUNT							
At 31 December 2021	**456,898**	**–**	**398,602**	**1,844**	**1,995**	**39,819**	**899,158**
At 31 December 2020	470,075	–	430,719	2,776	2,424	5,704	911,698

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At 31 December 2021, 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 RMB405,467,000 (2020: RMB577,631,000).

At 31 December 2021, as indicated by the significant improvement in the financial performance of the reporting segment of manufacturing and trading of polyester staple fibres as compared to the corresponding year of 2020 which is mainly attributed to management's appropriate change of production and sales strategies, and an increase in price of polyester staple fibres, management performed a re-assessment of the impairment previously made against the property, plant and equipment and right-of-use assets belong to the staple fibres CGU to reflect the economic conditions at the reporting date. In making the assessment, internal and external sources of information are considered. These included management's production and sales strategies, the impact of COVID-19 and the upward trend in price of polyester staple fibres.

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 EBITDA margin. The discount rate used is pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Management determined the EBITDA margin based on past performance and expectations on market development, and the business model the entity undertakes.

The cash flow forecasts are derived from the most recent financial budgets approved by the directors for the next five years with an average EBITDA margin growth rate of 5.41% (2020: 4.67%) and the residual period using the growth rate of 2.0% (2020: 2.6%) 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 staple fibres activities is 13.09% (2020: 12.94%).

Based on the value in use calculation, the recoverable amount of the CGU at 31 December 2021 of RMB41,474,000 is higher than the carrying amounts of property, plant and equipment and right-of-use assets belong to the CGU. As a result, a reversal of impairment losses on property, plant and equipment and right-of-use assets (Note 20) amounting to approximately RMB3,908,000 and RMB273,000 (2020: RMB5,158,000 and RMB134,000) respectively were recognised during the year.

At 31 December 2021, the carrying amounts of property, plant and equipment and right-of-use assets belong to the CGU of manufacturing and trading of polyester staple fibres, were approximately RMB33,923,000 and RMB7,551,000 (2020: RMB32,263,000 and RMB7,458,000) respectively.

20. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000	Leased properties RMB'000	Plant and machinery RMB'000	Total RMB'000
At 1 January 2020	41,938	644	38,086	80,668
Depreciation	(1,068)	(552)	(4,276)	(5,896)
Reversal of impairment loss (Note 19)	134	–	–	134
At 31 December 2020	41,004	92	33,810	74,906
Lease modification	–	463	–	463
Depreciation	(1,069)	(478)	(1,279)	(2,826)
Transfer to property, plant and equipment	–	–	(24,500)	(24,500)
Reversal of impairment loss (Note 19)	273	–	–	273
At 31 December 2021	**40,208**	**77**	**8,031**	**48,316**

Details of total cash outflow for leases is set out in Note 36(b).

At 31 December 2021, the carrying amounts of leasehold land and plant and machinery pledged as security for the Group's bills payable, lease liabilities and bank and other borrowings amounted to approximately RMB37,500,000 and RMB8,031,000 respectively (2020: approximately RMB29,178,000 and RMB33,810,000 respectively).

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.

The Group leases office premises for its operations. During the current year, the lease contract was entered into for a fixed term of 1 year.

It is the Group's policy to lease certain of its plant and machinery under finance leases. The average lease term is 4 years. At 31 December 2021, the effective borrowing rates ranged from 2.00% to 3.82% (2020: 2.00% to 3.82%) 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.

21. GOODWILL

	2021 RMB'000	2020 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 EBITDA margin. The discount rate used is pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Management determined the EBITDA margin based on past performance and expectations on market development, the business model Huachun undertakes.

The cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with an average EBITDA margin growth rate of 13.15% (2020: 9.73%) with the residual period using the growth rate of 2.0% (2020: 2.6%) 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 Huachun's sales of yarns activities is 12.56% (2020: 12.25%).

There is no impairment in respect of goodwill in the current year as the CGU recoverable amount exceeded its carrying amount.

22. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**150,389**	129,745
Work in progress	**20,075**	15,927
Finished goods	**144,183**	36,993
	314,647	182,665

23. TRADE AND OTHER RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**12,862**	10,003
Advance payments to suppliers	**29,428**	21,886
Prepayments and other receivables	**2,283**	1,380
Other tax recoverables	**2,925**	4,236
	47,498	37,505

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 30 – 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.

23. TRADE AND OTHER RECEIVABLES (Continued)

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

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

	2021 RMB'000	2020 RMB'000
0 – 30 days	**9,866**	8,538
31 – 90 days	**2,033**	630
91 – 180 days	**160**	4
181 – 365 days	**220**	–
Over 365 days	**583**	831
	12,862	10,003

The carrying amounts of the Group's trade receivables are denominated in RMB.

24. BILLS RECEIVABLE

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

	2021 RMB'000	2020 RMB'000
0 – 30 days	**70**	1,125
31 – 90 days	**300**	1,727
91 – 180 days	**–**	2,718
	370	5,570

Included in the above bills receivable, were the following bills receivable 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.

24. BILLS RECEIVABLE (Continued)

	Bills receivable endorsed to suppliers with full recourse	
	2021	2020
	RMB'000	RMB'000
Carrying amount of recognised financial assets	**370**	5,370
Carrying amount of corresponding liabilities not set-off	**(370)**	(5,370)

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 approximate their fair values.

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

	2021	2020
	RMB'000	RMB'000
Pledged bank deposits	**60,246**	90,976
Cash and bank balances	**283,034**	184,606
	343,280	275,582

Pledged bank deposits and cash and bank balances of the Group carry interest at market rates per annum as follows:

	2021	2020
Pledged bank deposits	**0.01% – 3.00%**	0.01% – 2.10%
Cash and bank balances	**0.001% – 1.73%**	0.001% – 1.73%

25. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES (Continued)

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

	2021 RMB'000	2020 RMB'000
HK$	**140**	346
US$	**2,105**	6,295
RMB	**341,035**	268,941
	343,280	275,582

The Group's pledged bank deposits represent deposits pledged to secure bills payable, and bank and other borrowings of the Group as set out in Notes 28 and 31.

At 31 December 2021, the Group's bank deposits and cash and bank balances denominated in RMB amounted to approximately RMB341,035,000 (2020: RMB268,941,000). 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.

26. TRADE AND OTHER PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	**22,436**	41,904
Other payables	**6,808**	7,387
Other tax payables	**28,224**	20,252
Accrued salaries and wages	**19,774**	18,530
Other accrued charges	**135,003**	124,928
Payables for acquisition of property, plant and equipment	**3,209**	819
	215,454	213,820

26. TRADE AND OTHER PAYABLES (Continued)

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

	2021 RMB'000	2020 RMB'000
0 – 30 days	**14,950**	27,356
31 – 90 days	**80**	10,256
91 – 180 days	**6,149**	3,432
Over 365 days	**1,257**	860
	22,436	41,904

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. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

The carrying amounts of the Group's trade payables are denominated in RMB.

27. CONTRACT LIABILITIES

Contract liabilities represent deposits from customers.

Movements in contract liabilities:

	2021 RMB'000	2020 RMB'000
At 1 January	**16,821**	16,920
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	**(16,386)**	(16,019)
Increase in contract liabilities as a result of receiving deposits from customers	**24,328**	15,920
At 31 December	**24,763**	16,821

28. BILLS PAYABLE

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

	2021 RMB'000	2020 RMB'000
0 – 30 days	**21,704**	10,293
31 – 90 days	**6,826**	9,329
91 – 180 days	**13,736**	31,155
181 – 365 days	**5,053**	32,223
	47,319	83,000

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

29. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants	**6,830**	7,094
Analysed as:		
Current liabilities	**264**	264
Non-current liabilities	**6,566**	6,830
	6,830	7,094

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 RMB264,000 (2020: RMB389,000). At 31 December 2021, an aggregate carrying amount of approximately RMB6,830,000 (2020: RMB7,094,000) remains to be amortised.

30. LEASE LIABILITIES

	Minimum lease payments		Present value of minimum lease payments	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,232**	7,603	**2,192**	7,281
In the second to fifth years, inclusive	**576**	10,456	**573**	10,277
	2,808	18,059	**2,765**	17,558
Less: Future interest expenses	**(43)**	(501)	**N/A**	N/A
	2,765	17,558	**2,765**	17,558
Less: Portion of amount contains a repayment on demand clause or due for settlement within 12 months (shown under current liabilities)			**(2,765)**	(16,512)
Amount due for settlement after 12 months			**–**	1,046

All the lease liabilities are denominated in HK$.

The incremental borrowing rate applied to lease liabilities ranged from 2.00% to 9.59% (2020: 2.00% to 10.97%).

31. BANK AND OTHER BORROWINGS

	2021 RMB'000	2020 RMB'000
Secured	**411,773**	434,557
Unsecured	**138,701**	56,818
	550,474	491,375

	2021 RMB'000	2020 RMB'000
The bank and other borrowings are repayable as follows:		
Within one year	**492,679**	443,518
More than one year, but not exceeding two years	**–**	31,063
More than two years, but not more than five years	**49,413**	4,413
	542,092	478,994
Portion of bank loans that are due for repayment after one year but contain a repayment on demand clause (shown under current liabilities)	**8,382**	12,381
	550,474	491,375
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(501,061)**	(455,899)
Amount due for settlement after 12 months	**49,413**	35,476

At 31 December 2021, certain assets of the Group have been pledged as collaterals for secured bank and other borrowings (Note 37).

31. BANK AND OTHER BORROWINGS (Continued)

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

	2021 RMB'000	2020 RMB'000
HK$	**11,997**	19,838
US$	**4,413**	4,413
RMB	**534,064**	467,124
Total	**550,474**	491,375

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

	2021	2020
Interest rate:		
– Fixed-rate borrowings	**2.40% – 10.71%**	2.75% – 10.71%
– Variable-rate borrowings	**1.97% – 7.20%**	2.07% – 7.20%

Bank and other borrowings of approximately RMB459,064,000 (2020: RMB437,124,000) 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 2021.

During the year ended 31 December 2021, the Company's subsidiary, Xinyuan breached a financial covenant term in a bank loan arrangement in relation to the maintenance of its net cash generated from operating activities which triggered an early repayment option by the bank. This bank loan with carrying amount of approximately RMB30,000,000 was classified under current liabilities. The bank has not requested for the early repayment of the bank loan. Subsequent to the end of the reporting period, the bank loan was fully repaid on maturity date. Notwithstanding the above, the directors believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of Xinyuan.

32. 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 2020	1,739	(17,109)	(7,148)	(10,685)	(33,203)
(Charge)/Credit to profit or loss (Note 13)	(957)	(1,670)	77	(115)	(2,665)
At 31 December 2020 and 1 January 2021	**782**	**(18,779)**	**(7,071)**	**(10,800)**	**(35,868)**
Credit/(Charge) to profit or loss (Note 13)	**4,630**	**974**	**535**	**(1,841)**	**4,298**
At 31 December 2021	**5,412**	**(17,805)**	**(6,536)**	**(12,641)**	**(31,570)**

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:

	2021 RMB'000	2020 RMB'000
Deferred tax assets	**5,412**	–
Deferred tax liabilities	**(36,982)**	(35,868)
	(31,570)	(35,868)

32. 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 2021 and 2020, 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 had unused tax losses of approximately RMB66,552,000 (2020: RMB72,765,000) available for offset against future profits. No deferred tax asset was recognised in respect of the unused tax losses of approximately RMB44,903,000 (2020: RMB67,548,000). Among which (a) based on the most recent financial budgets of Xinyuan approved by the directors for the next five years, unrecognised tax losses of approximately RMB13,944,000 (2020: RMB41,575,000) were not expected to be utilised in the near term and might expire before utilisation and (b) approximately RMB30,959,000 (2020: RMB25,973,000) of Treasure Resources, might be carried forward indefinitely, were not recognised due to unpredictability of future profit streams.

At the end of the reporting period, the Group has unrecognised deductible temporary differences of approximately RMB29,716,000 (2020: RMB36,259,000) for which deferred tax assets were not recognised since the utilisation of the deductible temporary differences will require future taxable profits.

33. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2020 and 31 December 2021	10,000,000	1,000,000

	Number of shares '000	HK$'000	RMB'000
Issued and fully paid:			
At 31 December 2020 and 31 December 2021	1,252,350	125,235	101,989

33. 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 bank and other borrowings and lease liabilities, 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 2021 and at 31 December 2020 was as follows:

	2021 RMB'000	2020 RMB'000
Total debts	**553,239**	508,933
Less: Cash and cash equivalents	**(283,034)**	(184,606)
Net debts	**270,205**	324,327
Equity attributable to owners of the Company	**781,194**	631,902
Net debts and equity attributable to owners of the Company	**1,051,399**	956,229

The increase in the capital structure during 2021 resulted primarily from the increase in equity attributable to owners of the Company.

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. Certain subsidiaries of the Company are also subject to the maintenance of specified financial requirements, such as on net cash generated from operating activities, debt-asset ratio and current ratio. However, one of the Company's subsidiaries, Xinyuan breached a financial covenant in a bank loan agreement as disclosed in Note 31.

34. CAPITAL COMMITMENTS

	2021 RMB'000	2020 RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	**97,553**	1,578

35. RETIREMENT BENEFITS SCHEME

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 employees of the Group's subsidiaries established in the PRC are required to participate in a central pension scheme operated by the local municipal government of the PRC. These subsidiaries are required to contribute a fixed rate of 16% (2020: 16% subject to the COVID-19-pandemic-related concession granted by the government in 2020) of their relevant payroll costs to the central pension scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total contributions to retirement benefits schemes charged to profit or loss for the year ended 31 December 2021 are disclosed in Note 15.

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) 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 2021 RMB'000	Cash flows RMB'000	Lease modification RMB'000	Interest expenses RMB'000	Exchange differences RMB'000	31 December 2021 RMB'000
Lease liabilities	17,558	(15,181)	463	192	(267)	2,765
Bank and other borrowings	491,375	35,107	–	24,505	(513)	550,474
	508,933	19,926	463	24,697	(780)	553,239

	1 January 2020 RMB'000	Cash flows RMB'000	Interest expenses RMB'000	Exchange differences RMB'000	31 December 2020 RMB'000
Lease liabilities	24,257	(6,178)	668	(1,189)	17,558
Bank and other borrowings	415,167	51,388	26,194	(1,374)	491,375
Entrusted loan payable	50,000	(52,525)	2,525	–	–
	489,424	(7,315)	29,387	(2,563)	508,933

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

(b) Total cash outflow for leases

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

	2021 RMB'000	2020 RMB'000
Within operating cash flows	**192**	668
Within financing cash flows	**14,989**	5,510
	15,181	6,178

These amounts relate to the following:

	2021 RMB'000	2020 RMB'000
Lease rental paid	**15,181**	6,178

(c) Acquisition of remaining interest in a subsidiary in 2021

During the year ended 31 December 2021, the Group acquired the remaining 23% equity interests in Xinyuan from a non-controlling shareholder at a cash consideration of approximately RMB16,100,000, which increased the Group's shareholding in Xinyuan from 77% to 100%. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	2021 RMB'000
Share of net liabilities in the subsidiary acquired	**(812)**
Consideration paid	**(16,100)**
Loss on acquisition recognised directly in equity	**(16,912)**

37. PLEDGE OF ASSETS

At 31 December 2021, the following carrying amounts of assets have been pledged as security for the Group's bills payable, lease liabilities, and bank and other borrowings (Notes 28, 30 and 31).

	2021 RMB'000	2020 RMB'000
Property, plant and equipment	**405,467**	577,631
Right-of-use assets	**45,531**	62,988
Pledged bank deposits	**60,246**	90,976
	511,244	731,595

38. RELATED PARTY TRANSACTIONS

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

(a) Transactions with related parties

	2021 RMB'000	2020 RMB'000
Short-term employee benefits in relation to a close family member of a key management personnel	**388**	411

(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:

	2021 RMB'000	2020 RMB'000
Short-term benefits	**3,348**	3,586

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

At 31 December 2021, included in accrued salaries and wages was an amount of approximately RMB41,000 (2020: RMB41,000) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

38. RELATED PARTY TRANSACTIONS (Continued)

(c) Balances with related parties

	2021 RMB'000	2020 RMB'000
Included in other payables:		
Amount due to a related company – 江西寶源彩紡有限公司 (for identification purpose, Jianxi Baoyuan Colourful Textile Co. Limited ("Jiangxi Baoyuan")	–	–

Jianxi Baoyuan is considered as a related company of the Group as at 31 December 2021 since 89% (2020: 85%) of its equity interest is owned by a close family member of two directors.

During the year ended 31 December 2021, certain unsecured loans ranging from RMB3,000,000 to RMB40,000,000 (2020: certain unsecured loans ranging from RMB3,000,000 to RMB17,000,000) were advanced from Jiangxi Baoyuan. These interest-free loans were fully settled during the year ended 31 December 2021.

(d) Other transactions with related parties

At 31 December 2021 and 2020, certain banking facilities were guaranteed by the executive director and a close family member of two directors.

39. CONTINGENT LIABILITIES

At 31 December 2021, the Group did not have any significant contingent liabilities (2020: Nil).

40. SHARE OPTION SCHEME

Pursuant to a resolution passed on 25 June 2021, the Company adopted a share option scheme (the "**Option Scheme**"), which will expire 10 years after the date immediately prior to the 10th anniversary of the adoption date of the Option Scheme, by the shares of the Company (the "**Shares**") 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 board of the Company may grant options to any full-time or part-time employees, executives, officers or managers of the Company or any of its subsidiaries; any directors (including executive, non-executive and independent non-executive directors) of the Company or any of its subsidiaries; and any consultants of 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 subscription price is determined by the board of the Company, and will not be less than the higher 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, and (b) the average of the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The total number of Shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue at the date of approval of the Option Scheme, being 1,252,350,000 Shares, unless further approval from the Shareholders has been obtained.

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

No share options were granted by the Company nor exercised by any employees during the years ended 2021 and 2020. There are no share options outstanding as at 31 December 2021 and 2020.

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

(a) Statement of financial position of the Company

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Investments in subsidiaries		**184,256**	184,256
Current assets			
Prepayments		**69**	72
Bank balances		**3**	86
Amount due from a subsidiary		**53,313**	9,745
		53,385	9,903
Current liabilities			
Other payables		**556**	373
Financial guarantee contract liabilities		**1,029**	1,809
		1,585	2,182
Net current assets		**51,800**	7,721
Net assets		**236,056**	191,977
Capital and reserves			
Share capital		**101,989**	101,989
Reserves	41(b)	**134,067**	89,988
Equity		**236,056**	191,977

Approved by the Board of Directors on 29 March 2022 and are signed on its behalf by:

Zheng Hong
DIRECTOR

Zheng Yongxiang
DIRECTOR

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

(b) Reserve movement of the Company

	Share Premium RMB'000 (Note 42(b)(i))	Special reserve RMB'000 (Note 42(b)(iii))	Retained Profits RMB'000	Total RMB'000
At 1 January 2020	73,903	(81)	5,956	79,778
Profit and total comprehensive income for the year	–	–	9,967	9,967
Forfeiture of unclaimed dividends	–	–	243	243
At 31 December 2020 and 1 January 2021	**73,903**	**(81)**	**16,166**	**89,988**
Profit and total comprehensive income for the year	**–**	**–**	**80,419**	**80,419**
Dividends (Note 17)	**(20,829)**	**–**	**(15,511)**	**(36,340)**
At 31 December 2021	**53,074**	**(81)**	**81,074**	**134,067**

42. 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.

43. 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 Direct	Percentage of ownership interest Indirect	Principal activities
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. Δ*	PRC	RMB120,000,000	–	100%	Manufacturing and trading of yarn products
Jiangxi Xinyuan Special Fibres Company Limited Δ*	PRC	RMB70,000,000	–	100%	Manufacturing and trading of polyester staple fibres

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

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

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

44. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the directors proposed a final dividend of HK5.0 cents per ordinary share to the shareholders, details are disclosed in Note 17.

Five Years Financial Summary

	Year ended 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
Revenue	1,582,558	1,836,161	1,796,390	1,421,077	**1,724,315**
Cost of sales	(1,440,088)	(1,640,190)	(1,680,266)	(1,277,914)	**(1,406,810)**
Gross profit	142,470	195,971	116,124	143,163	**317,505**
Other income	22,227	31,231	28,641	29,215	**40,656**
Other gains and losses	22,129	(2,723)	260	3,489	**(17,646)**
Distribution and selling expenses	(24,245)	(25,752)	(28,354)	(26,543)	**(27,082)**
Administrative expenses	(49,948)	(53,711)	(55,645)	(49,217)	**(57,517)**
(Impairment loss)/Reversal of impairment loss on property, plant and equipment	–	–	(44,120)	5,158	**3,908**
(Impairment loss)/Reversal of impairment loss on right-of-use assets	–	–	(426)	134	**273**
Profit from operations	112,633	145,016	16,480	105,399	**260,097**
Finance costs	(55,774)	(35,665)	(32,690)	(29,387)	**(24,697)**
Profit/(Loss) before tax	56,859	109,351	(16,210)	76,012	**235,400**
Income tax expense	(8,914)	(29,319)	(4,100)	(13,208)	**(31,001)**
Profit/(Loss) and total comprehensive income for the year	47,945	80,032	(20,310)	62,804	**204,399**
Profit/(Loss) and total comprehensive income for the year attributable to:					
Owners of the Company	50,293	80,309	(1,405)	62,750	**202,544**
Non-controlling interests	(2,348)	(277)	(18,905)	54	**1,855**
	47,945	80,032	(20,310)	62,804	**204,399**
Earnings/(Loss) per share					
Basic (RMB cents)	4.02	6.41	(0.11)	5.01	**16.71**
Diluted (RMB cents)	2.12	6.41	N/A	N/A	**N/A**

	At 31 December				
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	**2021** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,563,120	1,556,740	1,487,079	1,508,554	**1,689,565**
Total liabilities	(1,021,631)	(935,219)	(920,891)	(879,319)	**(908,371)**
Net assets	541,489	621,521	566,188	629,235	**781,194**
Equity attributable to:					
Owners of the Company	511,850	592,159	568,909	631,902	**781,194**
Non-controlling interests	29,639	29,362	(2,721)	(2,667)	**–**
Total equity	541,489	621,521	566,188	629,235	**781,194**