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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you have sold or transferred** all your shares in China Weaving Materials Holdings Limited, you should at once hand this circular to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**CHINA WEAVING MATERIALS HOLDINGS LIMITED**

**中國織材控股有限公司**

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

**MAJOR TRANSACTION IN  
RELATION TO THE ACQUISITION OF  
ALL EQUITY INTEREST IN HUACHUN**

**Financial Adviser to the Company**



**Guotai Junan Capital Limited**

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A letter from the Board is set out on pages 3 to 10 of this circular.

27 October 2014

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## DEFINITIONS

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*In this circular, the following expressions shall have the following meanings unless otherwise stated:*

|                                |  |
|--------------------------------|--|
| “Acquisition”                  | the acquisition of all equity interest of Huachun by the Group, as contemplated under the Acquisition Agreement  |
| “Acquisition Agreement”        | an acquisition agreement dated 30 September 2014 in relation to the acquisition of all equity interest in Huachun by the Group, entered into by the Company, Jiangxi Jinyuan, the Vendors and the Vendor Holding Company |
| “Board”                        | the board of Directors of the Company  |
| “Business Day(s)”              | a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong   |
| “connected person(s)”          | has the meaning ascribed to it under the Listing Rules   |
| “Company”                      | China Weaving Materials Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange  |
| “Conditions Precedent”         | the conditions precedent to the Acquisition Agreement, as summarized in the paragraph headed “Conditions Precedent” in this circular   |
| “Consideration”                | the total consideration of the Acquisition, being RMB200 million   |
| “Director(s)”                  | the directors of the Company   |
| “Enlarged Group”               | the Group as enlarged by the Acquisition   |
| “Equity Transfer”              | the transfer of the entire equity interest in Huachun by the Vendors to Jiangxi Jinyuan pursuant to the Acquisition Agreement  |
| “Group”                        | the Company and its subsidiaries   |
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the PRC   |
| “Huachun”                      | Jiangxi Huachun Color Spinning Technology Development Co., Ltd* (江西華春色紡科技發展有限公司), a limited liability company established in the PRC on 30 April 2010  |
| “Independent Third Party(ies)” | third party independent of the Company and connected persons of the Company  |

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## DEFINITIONS

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|                           |   |
|---------------------------|---|
| “Listing Rules”           | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)  |
| “Jiangxi Jinyuan”         | Jinyuan Textile Co., Ltd. Jiangxi (江西金源紡織有限公司), a wholly foreign-owned enterprise established in the PRC on 10 October 2005 and is a wholly-owned subsidiary of the Company |
| “Latest Practicable Date” | 24 October 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular                             |
| “PRC”                     | the People’s Republic of China  |
| “RMB”                     | Renminbi, the lawful currency of the PRC  |
| “Shares”                  | ordinary share(s) of HK\$0.10 each in the capital of the Company  |
| “Shareholder(s)”          | holder(s) of the Share(s)   |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited   |
| “Vendor Holding Company”  | Kingston Success Limited (金城有限公司) a company incorporated under the laws of the British Virgin Islands on 2 July 2014, which is wholly owned by the Vendors                  |
| “Vendors”                 | all shareholders of Huachun immediately prior to entering into the Acquisition Agreement, being seven individuals resident in the PRC, each an Independent Third Party      |

\* *For identification purposes only*

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## LETTER FROM THE BOARD

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### CHINA WEAVING MATERIALS HOLDINGS LIMITED

### 中國織材控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3778)**

*Executive Directors:*

Mr. Zheng Hong (*Chairman*)

Mr. Zheng Yongxiang

*Non-executive Director:*

Mr. Sze Irons, JP

*Independent non-executive Directors:*

Ms. Chan Mei Bo, Mabel

Mr. Nie Jianxin

Mr. Ng Wing Ka

*Registered office:*

Cricket Square

Hutchins Drive

PO Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Principal place of business*

*in Hong Kong:*

Unit 806, 8/F, AXA Centre

151 Gloucester Road

Wanchai, Hong Kong

27 October 2014

*To the Shareholders*

Dear Sir or Madam,

### MAJOR TRANSACTION IN RELATION TO THE ACQUISITION OF ALL EQUITY INTEREST IN HUACHUN

#### INTRODUCTION

Reference is made to the announcement of the Company dated 30 September 2014 in relation to the Acquisition and the Equity Transfer.

Since all applicable percentage ratio(s) in respect of the Acquisition Agreement calculated pursuant to Chapter 14 of the Listing Rules are more than 25% but less than 100%, the Acquisition constitutes a major transaction under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and Shareholders' approval requirements under the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, in lieu of holding a general meeting, shareholders' written approval has been obtained on 9 October 2014 from Popular Trend Holdings Limited, Flourish Talent Group Limited and Mr. Zheng Yongxiang, a closely allied group of Shareholders who beneficially held 611,492,000 Shares, representing approximately 60.39% of the issued share capital of the Company as at 16 October 2014, approving the Acquisition.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (a) further details of the Acquisition; (b) financial information of the Group, Huachun and the Enlarged Group; and (c) other information required under the Listing Rules.

### THE ACQUISITION AGREEMENT

The Board announced that on 30 September 2014, the Company, Jiangxi Jinyuan, the Vendors and the Vendor Holding Company entered into the Acquisition Agreement pursuant to which Jiangxi Jinyuan has conditionally agreed to acquire and the Vendors have conditionally agreed to sell all equity interest in Huachun for a total consideration of RMB200 million. The Consideration will be settled in cash by (i) Jiangxi Jinyuan as to RMB120 million payable to the Vendors and (ii) the Company as to RMB80 million payable to the Vendor Holding Company.

#### Date

30 September 2014

#### Parties

- (i) the Company
- (ii) Jiangxi Jinyuan
- (iii) the Vendors
- (iv) the Vendor Holding Company

#### Consideration and Basis of Consideration

The total consideration for the acquisition of Huachun pursuant to the Acquisition Agreement shall be RMB200 million, out of which RMB120 million will be settled by cash payment(s) to the Vendors by Jiangxi Jinyuan (the “**Onshore Consideration**”) and RMB80 million will be settled by cash payment to the Vendor Holding Company by the Company (the “**Offshore Consideration**”). The Consideration was determined through arm’s length negotiation among the parties with reference to, among other things, the production capacity of Huachun and the net assets of Huachun as of 30 April 2014.

At the time of its listing on the Stock Exchange in December 2011, the Company had a production capacity of approximately 321,000 spindles. The production facilities utilization rate of the Company has been running at over 90% since 2008. Subsequent to its listing, it has spent approximately RMB110 million on buildings and RMB62.5 million on plant and machinery and has taken approximately two and a half years to increase its capacity from 321,000 spindles to 380,000 spindles. Taking into account the increase in labor costs and the steady growth of the inflation rate in the PRC, the Directors are of the view that the estimated costs for enhancing the production capacity would increase further. As the Company would increase its current capacity immediately by approximately 78.9% to 680,000 spindles by the Acquisition, the Directors are of the view that the Consideration is fair and reasonable.

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## LETTER FROM THE BOARD

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The pro forma fair value of the identifiable net assets of Huachun amount to approximately RMB169.8 million after taking into account the revaluation of the property. The Consideration represents a premium of approximately 17.8% over the fair value of the net assets acquired. Huachun had entered into the market and developed its customers base for more than four years. Its own brand of “Huachun” has also been recognised in the yarns market. Taking into account (i) the higher gross profit margin of grey and deep grey melange yarns; and (ii) the increasing trend of the sales of grey and deep grey melange yarns, which accounted for approximately 20.4% and 47.3% of the total revenue of Huachun for the year ended 31 December 2013 and the four months ended 30 April 2014, the Company considers the Acquisition would improve the overall gross profit margin of the Enlarged Group and therefore the premium is fair and reasonable.

### **Payment Method**

Subject to all the Conditions Precedent having been satisfied or, where applicable, waived, the Onshore Consideration of RMB120 million is payable in full on the date which is the third anniversary of the date on which all necessary administrative procedures, including the registration of the Equity Transfer with the relevant administration of industry and commerce, have been duly completed (the “**Due Date**”), to the Vendors, based on their pro rata share of the equity interests in Huachun to be transferred to Jiangxi Jinyuan. The Vendors are entitled to semi-annual interest payments at a simple annualized interest rate of 8% per annum for as long as the Onshore Consideration is outstanding. At any time before the Due Date, Jiangxi Jinyuan may repay all or part of the outstanding balance of the Onshore Consideration, together with accrued but unpaid interest to the date of repayment.

Subject to the satisfaction of the Conditions Precedent, the Offshore Consideration of RMB80 million is payable in full to the Vendor Holding Company on the date on which the Equity Transfer has been completed, as evidenced by the issue of an updated business license to Huachun by the relevant administration of industry and commerce.

The Consideration will be settled by the Group’s internal resources or other fund raising activities.

### **Conditions Precedent**

The obligation of the Group to consummate the closing under the Acquisition Agreement is subject to the satisfaction in their sole discretion or, where legally permissible, waiver by the Group in writing (either in whole or in part and such waiver may be made subject to such terms and conditions as the Group may require and as the Vendors may agree) of the following conditions:

- (i) the results of business, technical, financial, legal, and other due diligence pertaining to Huachun shall be satisfactory to the Group;
- (ii) consents, licenses, registrations, or declarations of, or filings with, any competent authority required to be obtained or made prior to closing under applicable laws shall have been obtained or made on a basis reasonably satisfactory to the Group;
- (iii) the representations and warranties of the Vendors set out in the Acquisition Agreement continuing to be true, accurate and correct in all material respects as of the date of closing;
- (iv) the Acquisition having been approved by the Shareholders in accordance with applicable requirements under the Listing Rules;

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## LETTER FROM THE BOARD

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- (v) the Group having obtained all necessary consents and approvals in relation to the Acquisition Agreement and the transactions contemplated thereunder, as required under its articles of association, applicable law and the Listing Rules.

In the event that the closing conditions are not fulfilled (or waived to the extent permitted by law) within six months after signing of the Acquisition Agreement by the parties (i.e. 31 March 2015), the Acquisition Agreement shall become null and void and the parties shall automatically be released from their obligations under the Acquisition Agreement, except as otherwise agreed. As at the Latest Practicable Date, save for the conditions precedent set out in paragraphs (iii) and (iv) above, none of the conditions has been fulfilled or waived.

### **Completion**

Huachun shall effect the Equity Transfer within ten (10) Business Days after all the Conditions Precedent have been satisfied or, where applicable, waived.

Upon completion of the registration of the Equity Transfer with the relevant administration of industry and commerce, interest on the Onshore Consideration begins to accrue. The Onshore Consideration is payable in full three years after the completion of the registration of the Equity Transfer.

Upon completion of the registration of the Equity Transfer with the relevant administration of industry and commerce, the Company shall pay the Offshore Consideration to the Vendor Holding Company.

Upon the completion of the Acquisition, Huachun will become a wholly-owned subsidiary of the Group and its financial statements will be consolidated to those of the Group.

### **Taxes and Expenses**

Each party shall bear its own costs and expenses incidental to, arising out of or in connection with the preparation, negotiation and implementation of the Acquisition Agreement.

### **REASONS FOR AND BENEFITS OF THE ACQUISITION AGREEMENT**

The Group is engaged in the manufacturing and sale of polyester yarns, polyester-cotton blended yarns and cotton yarns in the PRC. It is one of the Group's strategies to become a leading manufacturer of yarn products in the PRC and the Group has been constantly seeking acquisition or cooperation opportunities to expand its production capacity. Considering that Huachun is a manufacturer of polyester yarns, grey and deep grey melange yarns and cotton yarns based in Jiangxi Province with a production capacity of 300,000 spindles and an estimated production output of approximately 54,000 tonnes per annum, the Acquisition Agreement enables the Group to, among others, (i) increase the Group's production capacity and output in a cost-efficient and timely manner, (ii) diversify the product portfolio of the Group to include grey and deep grey mélangé yarn products which yield a better margin than polyester and cotton yarns, (iii) increase bargaining power of the Group in terms of pricing, (iv) achieve bargaining power in respect of raw materials by means of diversified and large-scale procurement effort, (v) benefit from preferential government policies which are available only to domestic enterprises in the



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PRC while Jiangxi Jinyuan, being the Group's sole operating entity in the PRC prior to the completion of the Acquisition is a wholly foreign owned enterprise, and (vi) further consolidate the Group's position as the leading yarn manufacturer in Jiangxi Province.

Considering the above, the Directors, including the independent non-executive Directors, are of the view that the Acquisition Agreement has been entered into on normal commercial terms and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### INFORMATION ON THE PARTIES

#### The Company and Jiangxi Jiyuan

The Company is a manufacturer of polyester yarns, polyester-cotton blended yarns and cotton yarns and a leading enterprise in the textile industry in Jiangxi Province. Jiangxi Jinyuan is a wholly owned subsidiary of the Company.

#### The Vendors and the Vendor Holding Company

To the best of the knowledge and belief of the Directors having made all reasonable enquiries, each of the Vendors is an individual resident in the PRC and an Independent Third Party.

The Vendor Holding Company is a company incorporated under the laws of the British Virgin Islands and owned by the Vendors. As at the date of this circular, the Vendor Holding Company was held by the Vendors, being seven individuals resident in the PRC, as to 39.83%, 17.50%, 8.33%, 4.17%, 4.17%, 17.67% and 8.33%, respectively. To the best of the knowledge and belief of the Directors having made all reasonable enquiries, the Vendor Holding Company is an Independent Third Party.

#### Huachun

Huachun was established under the laws of the PRC as a limited liability company on 30 April 2010 with a registered capital of RMB120 million. Huachun is principally engaged in manufacturing and trading of polyester yarns, grey and deep grey melange yarns and cotton yarns in Jiangxi province, the PRC.

The principal asset of Huachun is the production facility located at the Industrial Zone of Fengxin County, Jiangxi Province with total area of approximately 288 mu (approximately 192,096 square meters), comprising six production workshops, each having a production capacity of 50,000 spindles. The total production capacity of Huachun in terms of spindles and weight is 300,000 spindles and approximately 54,000 tonnes per annum, respectively. Huachun's production capacities for polyester yarns, grey and deep grey melange yarns and cotton yarns, in terms of spindles, are 150,000, 100,000 and 50,000 spindles, respectively, and, in terms of weight, approximately 29,000, 20,000 and 5,000 tonnes per annum respectively.

As at the date of this circular, Huachun was held by the Vendors, being seven individuals resident in the PRC, as to 39.83%, 17.50%, 8.33%, 4.17%, 4.17%, 17.67% and 8.33%, respectively.

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To the best of the knowledge, information and belief of the Directors, and having made all reasonable enquiries, each of Huachun and the Vendors is an Independent Third Party.

Set out below is a summary of the financial information of Huachun as set out in Appendix II to this circular:

|   | For the year<br>ended 31 December   |                                     | For the four months<br>ended 30 April |                                     |
|---|-------------------------------------|-------------------------------------|---------------------------------------|-------------------------------------|
|   | 2012<br>(audited)<br><i>RMB'000</i> | 2013<br>(audited)<br><i>RMB'000</i> | 2013<br>(unaudited)<br><i>RMB'000</i> | 2014<br>(audited)<br><i>RMB'000</i> |
| Net profit/(loss) (before tax<br>and extraordinary items) | (12,416)                            | 14,865                              | (1,630)                               | 3,643                               |
| Net profit/(loss) (after tax<br>and extraordinary items)  | (14,024)                            | 10,952                              | (2,060)                               | 2,569                               |

As at 30 April 2014, the audited net asset of Huachun was approximately RMB114,246,000.

### POSSIBLE FINANCIAL EFFECTS OF THE ACQUISITION

Upon the completion of the Acquisition, Huachun will become a wholly-owned subsidiary of the Group and its financial statements will be consolidated to those of the Group.

As set out in Appendix III to this circular, assuming the Acquisition has been completed on 30 June 2014, the consolidated total assets of the Group would be increased from approximately RMB836.1 million to RMB1,591.1 million. The consolidated total liabilities of the Group would be increased from approximately RMB430.7 million to approximately RMB1,187.2 million. The increase of the consolidated total liabilities is primarily due to the consolidation of the liabilities of the Huachun with that of the Group and the accrual for the deferred consideration of RMB120 million payable to the vendors. As a result, the consolidated net assets of the Group would decrease from approximately RMB405.3 million to RMB403.9 million.

Taking into account the synergies potential of the Acquisition, the Acquisition is expected to broaden the revenue and earnings base in future.

### LISTING RULES IMPLICATIONS

As all applicable percentage ratios in respect of the Acquisition Agreement calculated pursuant to Chapter 14 of the Listing Rules are more than 25% but less than 100%, the Acquisition constitutes a major transaction under Chapter 14 of the Listing Rules and is therefore subject to the notification, announcement and Shareholders' approval requirements under the Listing Rules.

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has any material interest in the Acquisition and no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition Agreement. As such, the Acquisition Agreement may be approved by written Shareholders' approval in accordance with Rule 14.44 of the Listing Rules.

The Company has obtained the written Shareholders' approval on 9 October 2014 from Popular Trend Holdings Limited, Flourish Talent Group Limited and Mr. Zheng Yongxiang, a closely allied group of Shareholders who beneficially held 611,492,000 Shares, representing approximately 60.39% of the issued share capital of the Company as at 16 October 2014, approving the Acquisition. Accordingly, no general meeting for the Shareholders' approval of the Acquisition will be held. The respective shareholding of Popular Trend Holdings Limited, Flourish Talent Group Limited and Mr. Zheng Yongxiang as at the Latest Practicable Date is set forth below:

| Shareholders                   | Number of Shares   | Percentage    |
|--------------------------------|--------------------|---------------|
| Popular Trend Holdings Limited | 467,550,000        | 46.18%        |
| Flourish Talent Group Limited  | 122,850,000        | 12.13%        |
| Mr. Zheng Yongxiang            | 21,092,000         | 2.08%         |
| <b>Total</b>                   | <b>611,492,000</b> | <b>60.39%</b> |

Popular Trend Holdings Limited is wholly-owned by Mr. Zheng Hong, the chairman and executive Director. Flourish Talent Group Limited is wholly-owned by Mr. Sze Irons, JP ("Mr. Sze"), the non-executive Director. Mr. Zheng Yongxiang is an executive Director and the elder brother of Mr. Zheng Hong.

Flourish Talent Group Limited is beneficially owned by Mr. Sze, who is a founding shareholder of the operating subsidiary of the Company, Jiangxi Jinyuan, since its incorporation. Mr. Sze has been in business relationships with Mr. Zheng Hong and his family well before his investment in Jiangxi Jinyuan.

The time since when each of Popular Trend Holdings Limited, Flourish Talent Group Limited and Mr. Zheng Yongxiang became a Shareholder is set out below:

| Shareholder                    | When became a Shareholder                            |
|--------------------------------|--|
| Popular Trend Holdings Limited | since the incorporation of the Company on 4 May 2011 |
| Flourish Talent Group Limited  | since the incorporation of the Company on 4 May 2011 |
| Mr. Zheng Yongxiang            | since 20 September 2012                              |

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## LETTER FROM THE BOARD

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In addition, Mr. Zheng Hong and Mr. Sze were the initial shareholders of Jiangxi Jinyuan when Jiangxi Jinyuan was established in 2005. They remained direct shareholders of Jiangxi Jinyuan until October 2011, when the Company underwent a corporate reorganization, after which Mr. Zheng Hong and Mr. Sze have been holding their interests in the Group through Popular Trend Group Limited and Flourish Talent Group Limited, respectively.

### RECOMMENDATION

The Board considers that the terms of the Acquisition Agreement are fair and reasonable and the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors would recommend the Shareholders to vote in favour of a resolution approving the Acquisition Agreement and the transactions contemplated thereunder if the Company were to convene a general meeting to approve such resolution.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**China Weaving Materials Holdings Limited**  
**Zheng Hong**  
*Chairman*

*As at the date of this circular, the Board comprises Mr. Zheng Hong, Mr. Zheng Yong Xiang as the executive Directors; Mr. Sze Irons, JP, as the non-executive Director; Ms. Chan Mei Bo, Mabel, Mr. Nie Jian Xin and Mr. Ng Wing Ka as the independent non-executive Directors.*

**1. FINANCIAL INFORMATION OF THE GROUP**

The financial information of the Group for the three years ended 31 December 2011, 2012, 2013 and the six months ended 30 June 2014 are disclosed on pages 30 to 75 of the annual report of the Company for the year ended 31 December 2011, pages 35 to 81 of the annual report of the Company for the year ended 31 December 2012, pages 35 to 79 of the annual report of the Company for the year ended 31 December 2013 and pages 13 to 30 of the interim report of the Company for the six months ended 30 June 2014, all of which are published on the website of the Stock exchange at <http://www.hkexnews.hk>, and the website of the Company at [www.chinaweavingmaterials.com](http://www.chinaweavingmaterials.com). Quick links to the annual reports of the Company are set out below:

Annual report of the Company for the year ended 31 December 2011:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0403/LTN201204031198.pdf>

Annual report of the Company for the year ended 31 December 2012:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0411/LTN20130411595.pdf>

Annual report of the Company for the year ended 31 December 2013:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0403/LTN20140403799.pdf>

Interim report of the Company for the six months ended 30 June 2014:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0929/LTN20140929436.pdf>

**2. INDEBTEDNESS**

As at the close of business on 1 September, 2014, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding bank borrowings of approximately RMB468,987,031. Among the short term loan, RMB6,037,031 of which was secured by restricted bank deposit, RMB99,000,000 of which was secured by plant and equipment, RMB288,950,000 of which was secured by land and buildings and remaining portion is unsecured. In addition, bank borrowings amounting to RMB105 million of which was guaranteed by a shareholder, the general manager and third parties of Huachun and remaining portion is unguaranteed.

As at the close of business on 1 September, 2014, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had outstanding obligations under finance lease of approximately RMB21,839,603 which were secured over the leased assets.

As at the close of business on 1 September, 2014, being the latest practicable date for the purpose of this statement of indebtedness, the Enlarged Group had a secured bond payable of approximately RMB200,086,000, which was guaranteed by a third party of Huachun.

Save as disclosed above and otherwise mentioned in this circular, except and apart from intra-group liabilities, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 1 September, 2014.

**3. WORKING CAPITAL**

Taking into account the proposed acquisition, the Enlarged Group's internal resources, the presently confirmed available banking facilities and in the absence of unforeseen circumstances, the Directors are of the opinion that, the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

**4. MATERIAL ADVERSE CHANGE**

Save as the significant drop in the earnings of the Company as disclosed in the interim report of the Company for the six months ended 30 June 2014, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2013, the date to which the latest audited financial statements of the Company were made up.

**5. CONTINGENT LIABILITIES**

Except as disclosed in Note 31 of the Accountants' Report in Appendix II of this circular, as of 30 April 2014, the Enlarged Group has no other material contingent liabilities. The Enlarged Group is not involved in any current material legal proceedings, nor is the Enlarged Group aware of such material legal proceedings. The Group would record any loss contingencies when, based on information then available, it is probable that a loss had been incurred and the amount of the loss can be reasonably estimated. The Group confirms that there has not been any material change in the level of our contingent liabilities since 30 April 2014 up to the Latest Practicable Date.

**6. OUTLOOK AND PROSPECTS**

In the first half of 2014, the textile industry in the PRC continued to encounter adversity arising from a general weakness in demand. Apart from sluggish overseas demand and a softening domestic economy, the cancellation of the PRC government's national cotton temporary reserve policy has exacerbated the problem in the short term, prompting a significant drop in domestic cotton prices since April 2014. The PRC government has promulgated the full implementation details of the direct subsidy policy. The narrowed price gap between domestic and international cotton has lessened the pressure of price competition from imported yarns. However, lowered cotton prices have dragged down the prices of yarn products and the shift in policy has also introduced uncertainties to the prices of domestic cotton and increased their volatility in the short term. The textile market players have generally adopted a cautious approach to procurement which has negatively impacted the market demand and the Group's sales volume and selling prices of yarn product.

Looking forward, the sluggish overseas demand and a softening domestic economy will continue to pose challenges to the textile industry in the PRC. The cancellation of the government's national cotton temporary reserve policy is generally considered to be effective in facilitating market prices of domestic cotton and further narrow the price gap between domestic and international cotton. The new policy is expected to rationalize upstream and downstream relationships along the supply chain, and will benefit the textile industry in the PRC in the long run. Nevertheless, it is likely that the cancellation will discourage demand in the short term prior to the PRC government release the comprehensive subsidy mechanism and

other implementation details of the policy. The Group will constantly review its product mix and product pricing to react to market conditions. It will also closely monitor the procurement of raw material in order to minimize the risk of price volatility of raw materials. The increasing manufacturing cost arising from increased labor cost, utility cost and government levies has been a serious concern for domestic manufacturers for the past few years. The Group will curb the escalating costs by continuous improvement in production efficiency by means of improvement in production process, enhancement of automation, continuous training of workers, introduction of advanced and energy efficient machinery.

The Group has completed its current expansion plan, as the construction of a new workshop and other auxiliary building and the installation of the planned capacity of approximately 50,000 spindles has been completed and production has commenced. The Group's production capacity has been increased to approximately 380,000 spindles. In addition, the installation of open-end spun production facilities has completed in September 2014 and production testing has commenced. The production capacity of the open-end spun facilities is equivalent to approximately 20,000 spindles when it becomes operational at full scale, at which time the total capacity of the Group will be increased to approximately 400,000 spindles.

The Group expects the acquisition would result in synergies for the Enlarged Group including a more diversified product portfolio covering polyester yarns, polyester-cotton blended yarns, cotton yarns, open end spun yarns, grey and deep grey mélange polyester yarn products; more rational and coordinated sales and marketing effort in certain geographic areas including Zhejiang and Guangdong; improved bargaining power in procurement; more opportunities to take advantage of different government preferential policies available to foreign as well as domestic enterprises; infrastructural and logistical efficiencies through resources sharing due to the proximity of the production facilities. The synergies potentials of the Acquisition are expected to broaden the revenue and earnings base and improve cost efficiencies of the Enlarged Group.

## (I) ACCOUNTANTS' REPORT ON HUACHUN

**Deloitte.**  
德勤

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27 October 2014

The Directors  
**CHINA WEAVING MATERIALS HOLDINGS LIMITED**  
中國織材控股有限公司  
(incorporated in the Cayman Islands with limited liability)

Dear Sirs,

We set out below our report on the financial information (the “**Financial Information**”) relating to 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, hereinafter refer to as “**Huachun**”) for each of the three years ended 31 December 2013 and the four months ended 30 April 2014 (the “**Relevant Periods**”) for inclusion in a circular issued by China Weaving Materials Holdings Limited (the “**Company**”) dated 27 October 2014 (the “**Circular**”) in connection with the proposed acquisition of the entire equity interests of Huachun (the “**Acquisition**”).

Huachun, which is engaged in business of manufacturing and trading of polyester yarns, grey and deep grey melange yarns, was established in The People’s Republic of China (“**PRC**”) on 30 April 2010 with limited liability.

The statutory financial statements of Huachun were prepared in accordance with the relevant accounting principles and financial regulations in the PRC and were audited by the following certified public accountants registered in the PRC, as appropriate.

| <b>Year ended</b> | <b>Name of auditor</b> |
|-------------------|------------------------|
| 31 December 2013  | 江西富蘭特會計師事務所            |
| 31 December 2012  | 江西富蘭特會計師事務所            |
| 31 December 2011  | 江西富蘭特會計師事務所            |

For the purpose of this report, the directors of Huachun have prepared the financial statements of Huachun for the Relevant Periods in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Boards (“**Underlying Financial Statements**”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).



We have examined the Underlying Financial Statements for the Relevant Periods in accordance with Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Huachun for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements. No adjustments were considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the directors of Huachun who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Huachun as at 31 December 2011, 2012 and 2013 and 30 April 2014, and of the results and cash flows of Huachun for the Relevant Periods.

The comparative statement of profit or loss and other comprehensive income, statement of cash flows and statement of changes in equity of Huachun for the four months ended 30 April 2013 together with the notes thereon have been extracted from Huachun’s financial information for the same period (the “**April 2013 Financial Information**”) which was prepared by the directors of Huachun solely for the purpose of this report. We conducted our review on the April 2013 Financial Information in accordance with Hong Kong Standards on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted with the Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the April 2013 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the April 2013 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of Financial Information which conform with IFRSs.

## A. FINANCIAL INFORMATION

## STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

|   | NOTES | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|---|-------|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|   |       | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| Revenue   | 6     | 178,282                | 338,889         | 533,257         | 139,589                       | 192,906         |
| Cost of sales   |       | (170,254)              | (325,174)       | (477,416)       | (131,234)                     | (170,507)       |
| Gross profit  |       | 8,028                  | 13,715          | 55,841          | 8,355                         | 22,399          |
| Other income  | 8     | 2,171                  | 4,085           | 6,247           | 2,387                         | 2,876           |
| Distribution and selling expenses   |       | (2,588)                | (6,240)         | (8,281)         | (2,492)                       | (4,007)         |
| Administrative and other expenses   |       | (6,084)                | (10,532)        | (14,916)        | (4,183)                       | (5,755)         |
| Other losses  |       | –                      | –               | (1,485)         | –                             | –               |
| Finance costs   | 9     | (4,181)                | (13,444)        | (22,541)        | (5,697)                       | (11,870)        |
| (Loss) profit before tax  |       | (2,654)                | (12,416)        | 14,865          | (1,630)                       | 3,643           |
| Income tax expense  | 12(a) | (1,250)                | (1,608)         | (3,913)         | (430)                         | (1,074)         |
| (Loss) profit and total<br>comprehensive (expenses)<br>income for the year/period | 10    | (3,904)                | (14,024)        | 10,952          | (2,060)                       | 2,569           |

## STATEMENTS OF FINANCIAL POSITION

|   | NOTES | At 31 December   |                  |                  | At 30 April      |
|---|-------|------------------|------------------|------------------|------------------|
|   |       | 2011<br>RMB'000  | 2012<br>RMB'000  | 2013<br>RMB'000  | 2014<br>RMB'000  |
| <b>NON-CURRENT ASSETS</b>                                   |       |                  |                  |                  |                  |
| Property, plant and equipment                               | 14    | 223,392          | 350,625          | 486,392          | 494,893          |
| Intangible assets   | 15    | –                | –                | 217              | 198              |
| Prepaid lease payments                                      | 16    | 13,118           | 12,829           | 12,538           | 12,435           |
| Deposits on acquisition of<br>property, plant and equipment |       | 109,788          | 59,058           | 1,759            | 352              |
| Secured deposits for obligation<br>under finance lease      | 26    | –                | 4,090            | 4,090            | 4,090            |
| Deferred tax asset  | 12(b) | –                | 2,900            | 2,900            | 2,900            |
|   |       | <u>346,298</u>   | <u>429,502</u>   | <u>507,896</u>   | <u>514,868</u>   |
| <b>CURRENT ASSETS</b>                                       |       |                  |                  |                  |                  |
| Inventories   | 17    | 27,404           | 56,662           | 54,206           | 36,191           |
| Trade and other receivables                                 | 18    | 27,308           | 37,961           | 39,721           | 9,319            |
| Bills receivables   | 19    | 10,170           | 1,942            | 11,018           | 12,244           |
| Prepaid lease payments                                      | 16    | 289              | 289              | 289              | 289              |
| Tax recoverable   |       | 701              | 193              | 7,317            | 9,243            |
| Amount due from<br>江西寶源彩紡有限公司                               | 20(a) | –                | –                | 92,500           | 63,700           |
| Pledged bank deposits                                       | 21    | 2,220            | 29,912           | 34,446           | 49,350           |
| Cash and bank balances                                      | 21    | 1,744            | 10,676           | 12,753           | 17,790           |
|   |       | <u>69,836</u>    | <u>137,635</u>   | <u>252,250</u>   | <u>198,126</u>   |
| <b>CURRENT LIABILITIES</b>                                  |       |                  |                  |                  |                  |
| Trade and other payables                                    | 22    | 47,032           | 74,163           | 116,478          | 98,327           |
| Bills payables  | 23    | 11,013           | 69,240           | 54,890           | 72,900           |
| Amount due to an affiliated company                         | 24    | 5,000            | –                | –                | –                |
| Amount due to a shareholder                                 | 24    | 43,000           | –                | –                | –                |
| Amount due to<br>江西寶源彩紡有限公司                                 | 20(a) | 6,090            | 15,000           | –                | –                |
| Amounts due to third parties                                | 20(b) | 94,500           | 33,156           | 10,000           | –                |
| Bank borrowings   | 25    | 87,750           | 191,000          | 200,000          | 202,000          |
| Obligations under finance leases                            | 26    | –                | 20,716           | 20,532           | 20,394           |
| Financial guarantee liabilities                             | 31    | –                | –                | 657              | 257              |
|   |       | <u>294,385</u>   | <u>403,275</u>   | <u>402,557</u>   | <u>393,878</u>   |
| <b>NET CURRENT LIABILITIES</b>                              |       | <u>(224,549)</u> | <u>(265,640)</u> | <u>(150,307)</u> | <u>(195,752)</u> |
| <b>TOTAL ASSETS LESS CURRENT<br/>LIABILITIES</b>            |       | <u>121,749</u>   | <u>163,862</u>   | <u>357,589</u>   | <u>319,116</u>   |

|                                  | NOTES | At 31 December  |                 |                 | At 30 April     |
|----------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
|                                  |       | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| NON-CURRENT LIABILITIES          |       |                 |                 |                 |                 |
| Bank borrowings                  | 25    | 7,000           | 30,000          | 37,000          | –               |
| Bond payable                     | 27    | –               | –               | 196,333         | 198,264         |
| Obligations under finance leases | 26    | –               | 33,137          | 12,579          | 6,606           |
|                                  |       | <u>7,000</u>    | <u>63,137</u>   | <u>245,912</u>  | <u>204,870</u>  |
| NET ASSETS                       |       | <u>114,749</u>  | <u>100,725</u>  | <u>111,677</u>  | <u>114,246</u>  |
| CAPITAL AND RESERVE              |       |                 |                 |                 |                 |
| Registered capital               | 28    | 120,000         | 120,000         | 120,000         | 120,000         |
| Accumulated losses               |       | (5,251)         | (19,275)        | (8,323)         | (5,754)         |
| TOTAL EQUITY                     |       | <u>114,749</u>  | <u>100,725</u>  | <u>111,677</u>  | <u>114,246</u>  |

## STATEMENTS OF CHANGES IN EQUITY

|  | <b>Registered<br/>capital</b><br><i>RMB'000</i> | <b>Accumulated<br/>losses</b><br><i>RMB'000</i> | <b>Total</b><br><i>RMB'000</i> |
|--|---|---|--------------------------------|
| At 1 January 2011                                    | 120,000   | (1,347)   | 118,653                        |
| Loss and total comprehensive expense for the year    | –   | (3,904)   | (3,904)                        |
| At 31 December 2011                                  | 120,000   | (5,251)   | 114,749                        |
| Loss and total comprehensive expense for the year    | –   | (14,024)  | (14,024)                       |
| At 31 December 2012                                  | 120,000   | (19,275)  | 100,725                        |
| Profit and total comprehensive income for the year   | –   | 10,952  | 10,952                         |
| At 31 December 2013                                  | 120,000   | (8,323)   | 111,677                        |
| Profit and total comprehensive income for the period | –   | 2,569   | 2,569                          |
| At 30 April 2014                                     | <u>120,000</u>                                  | <u>(5,754)</u>                                  | <u>114,246</u>                 |
| At 1 January 2013                                    | 120,000   | (19,275)  | 100,725                        |
| Loss and total comprehensive expense for the period  | –   | (2,060)   | (2,060)                        |
| At 30 April 2013 (unaudited)                         | <u>120,000</u>                                  | <u>(21,335)</u>                                 | <u>98,665</u>                  |

## STATEMENTS OF CASH FLOWS

|  | Year ended 31 December |                |                | Four months ended<br>30 April |                |
|--|------------------------|----------------|----------------|-------------------------------|----------------|
|  | 2011                   | 2012           | 2013           | 2013                          | 2014           |
|  | <i>RMB'000</i>         | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>                | <i>RMB'000</i> |
|  |                        |                |                | (unaudited)                   |                |
| <b>OPERATING ACTIVITIES</b>                                |                        |                |                |                               |                |
| (Loss) profit before tax                                   | (2,654)                | (12,416)       | 14,865         | (1,630)                       | 3,643          |
| Adjustments for:   |                        |                |                |                               |                |
| Amortisation of intangible assets                          | –                      | –              | 33             | –                             | 19             |
| Release of prepaid lease payments                          | 256                    | 289            | 291            | 96                            | 103            |
| Loss on an issuing financial guarantee contract            | –                      | –              | 1,220          | –                             | –              |
| Amortisation of financial guarantee contracts              | –                      | –              | (563)          | –                             | (400)          |
| Depreciation of property, plant and equipment              | 4,439                  | 9,499          | 13,495         | 3,833                         | 5,948          |
| Interest expenses  | 4,181                  | 13,444         | 22,541         | 5,697                         | 11,870         |
| Interest income  | (30)                   | (226)          | (1,114)        | (131)                         | (345)          |
| Operating cash flow before movements<br>in working capital | 6,192                  | 10,590         | 50,768         | 7,865                         | 20,838         |
| (Increase) decrease in inventories                         | (22,321)               | (29,258)       | 2,456          | (907)                         | 18,015         |
| (Increase) decrease in trade and other<br>receivables      | (20,760)               | (10,653)       | (1,760)        | (4,705)                       | 30,402         |
| (Increase) decrease in bills receivable                    | (10,170)               | 8,228          | (9,076)        | (5,243)                       | (1,226)        |
| Increase (decrease) in trade and other<br>payables         | 40,211                 | 26,385         | 25,718         | 6,483                         | (8,635)        |
| Increase (decrease) in bills payables                      | 11,013                 | 58,227         | (14,350)       | 19,351                        | 18,010         |
| Cash generated from operations                             | 4,165                  | 63,519         | 53,756         | 22,844                        | 77,404         |
| Interest paid  | (5,542)                | (16,867)       | (27,626)       | (7,271)                       | (9,669)        |
| PRC Income taxes paid                                      | (1,953)                | (4,000)        | (11,037)       | (1,237)                       | (3,000)        |
| <b>NET CASH FROM OPERATING<br/>ACTIVITIES</b>              | <b>(3,330)</b>         | <b>42,652</b>  | <b>15,093</b>  | <b>14,336</b>                 | <b>64,735</b>  |

|   | Year ended 31 December |                 |                  | Four months ended<br>30 April  |                 |
|---|------------------------|-----------------|------------------|--------------------------------|-----------------|
|   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000  | 2013<br>RMB'000<br>(unaudited) | 2014<br>RMB'000 |
| <b>INVESTING ACTIVITIES</b>   |                        |                 |                  |                                |                 |
| Purchase of property, plant and equipment   | (196,773)              | (27,110)        | (69,137)         | (19,771)                       | (22,538)        |
| Purchase of intangible assets   | –                      | –               | (250)            | –                              | –               |
| Additions to prepaid lease payments   | (2,256)                | –               | –                | –                              | –               |
| Placement of pledged bank deposits<br>(Advance to) repayment from<br>江西寶源彩紡有限公司                     | (2,220)                | (46,617)        | (108,497)        | (51,144)                       | (49,350)        |
| Increase in secured deposits for obligations<br>under finance leases                                | –                      | (4,090)         | –                | –                              | –               |
| Withdrawal of pledged bank deposits   | –                      | 18,925          | 103,963          | 29,912                         | 34,446          |
| Interest received   | 30                     | 226             | 1,113            | 131                            | 345             |
| <b>NET CASH USED IN INVESTING<br/>ACTIVITIES</b>  | <b>(201,219)</b>       | <b>(58,666)</b> | <b>(165,308)</b> | <b>(45,372)</b>                | <b>(8,297)</b>  |
| <b>FINANCING ACTIVITIES</b>   |                        |                 |                  |                                |                 |
| Repayment of bank borrowings  | (51,250)               | (124,750)       | (290,000)        | (27,000)                       | (40,000)        |
| Repayment of obligations under finance leases   | –                      | (9,294)         | (21,552)         | (6,510)                        | (6,401)         |
| Advance from a an affiliated company  | 5,000                  | –               | 8,000            | 8,000                          | –               |
| Repayment to a an affiliated company  | –                      | (5,000)         | (8,000)          | –                              | –               |
| Advance from (repayment to) a shareholder   | 43,000                 | (43,000)        | –                | –                              | –               |
| Repayment to third parties  | (20,000)               | (96,590)        | (81,156)         | (2,881)                        | (10,000)        |
| Advance from third parties  | 94,500                 | 35,246          | 58,000           | 28,900                         | –               |
| Advance from (repayment to)<br>江西寶源彩紡有限公司   | 6,090                  | 8,910           | (15,000)         | –                              | –               |
| Proceeds from bank borrowings   | 126,000                | 251,000         | 306,000          | 47,000                         | 5,000           |
| Proceeds from sale and lease back transaction   | –                      | 8,424           | –                | –                              | –               |
| Proceeds from issue of bonds  | –                      | –               | 200,000          | –                              | –               |
| Bonds issuing cost paid   | –                      | –               | (4,000)          | –                              | –               |
| <b>NET CASH FROM (USED IN)<br/>FINANCING ACTIVITIES</b>   | <b>203,340</b>         | <b>24,946</b>   | <b>152,292</b>   | <b>47,509</b>                  | <b>(51,401)</b> |
| <b>NET (DECREASE) INCREASE IN CASH<br/>AND CASH EQUIVALENTS</b>                                     | <b>(1,209)</b>         | <b>8,932</b>    | <b>2,077</b>     | <b>16,473</b>                  | <b>5,037</b>    |
| <b>CASH AND CASH EQUIVALENTS AT<br/>BEGINNING OF YEAR/PERIOD</b>                                    | <b>2,953</b>           | <b>1,744</b>    | <b>10,676</b>    | <b>10,676</b>                  | <b>12,753</b>   |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF YEAR/PERIOD,<br/>representing bank balances and cash</b> | <b>1,744</b>           | <b>10,676</b>   | <b>12,753</b>    | <b>27,149</b>                  | <b>17,790</b>   |

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL

Huachun was established in The People's Republic of China ("PRC") on 30 April 2010 with limited liability. The principal place of business of Huachun is at Fengxin Industrial Park, Yichun City, Jiangxi Province, the PRC.

Huachun is engaged in the business of manufacturing and trading of polyester yarns, grey and deep grey melange yarns in the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is the same as the functional currency of Huachun.

### 2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

As at 31 December 2011, 2012 and 2013 and 30 April 2014, Huachun had net current liabilities of RMB224,549,000, RMB265,640,000, RMB150,307,000 and RMB195,752,000, respectively. The directors of Huachun are satisfied that Huachun will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the unutilised banking facilities already in place, renewal of short-term borrowings based on past experience and relationship with banks and internal financial resources and accordingly. The Underlying Financial Statements have been prepared on a going concern basis.

### 3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, Huachun has consistently applied IFRSs, International Accounting Standards ("IAS"), amendments and interpretations issued by International Accounting Standards Board ("IASB") that are effective for annual accounting periods beginning on 1 January 2014.

At the date of this report, the IASB has issued the following new and revised amendments and interpretations which are not yet effective.

|                                  |  |
|----------------------------------|--|
| IFRS 9                           | Financial Instruments <sup>1</sup>   |
| IFRS 15                          | Revenue from Contracts with Customers <sup>2</sup>   |
| Amendments to IFRS 11            | Accounting for Acquisitions of Interests in Joint Operations <sup>4</sup>                          |
| Amendments to IAS 16 and IAS 38  | Clarification of Acceptable Methods of Depreciation and Amortisation <sup>4</sup>                  |
| Amendments to IAS 19             | Defined Benefit Plans: Employee Contributions <sup>3</sup>   |
| Amendments to IFRSs              | Annual Improvements to IFRSs 2010 – 2012 Cycle <sup>5</sup>  |
| Amendments to IFRSs              | Annual Improvements to IFRSs 2011 – 2013 Cycle <sup>3</sup>  |
| Amendments to IFRSs              | Annual Improvements to IFRSs 2012 – 2014 Cycle <sup>4</sup>  |
| Amendments to IAS 16 and IAS 41  | Agriculture: Bearer Plants <sup>4</sup>  |
| Amendments to IAS 27             | Equity Method in Separate Financial Statements <sup>4</sup>  |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup> |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions



**IFRS 15 Revenue from Contracts with Customers**

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 are that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of Huachun have yet to perform a detailed review on the potential impacts of IFRS 15. Hence, it is not practicable to provide a reasonable estimate of the financial effect and the relevant disclosures at this juncture.

The directors of Huachun anticipate that the application of the other new and revised IFRSs will have no material impact on the Financial Information.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by IASB. In addition, the financial information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance which for the Relevant Periods continue to be those disclosures required under the predecessor Companies Ordinance (Cap 32), in accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622). Historical cost is generally based on the fair value of the consideration given in exchange of goods and services. The principal accounting policies adopted are set out below, “Accounts and Audit” which are set out in sections 76 to 87 of Schedule 11 of that Ordinance.

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, Huachun takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except leasing transactions that are within the scope of IAS 17.

The principal accounting policies are set out below.

**Revenue recognition**

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

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

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

**Service income is recognised when services are provided.**

Deposits from customers prior to meeting the revenue recognition criteria are included in the statements of financial position under current liabilities.

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

**Property, plant and equipment**

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

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than properties under construction, less their residual values over their estimated useful lives, using the straight-line method at the following rates per annum:

|                     |          |
|---------------------|----------|
| Buildings           | 3%       |
| Plant and machinery | 5% – 10% |
| Office equipment    | 5% – 10% |
| Motor vehicles      | 10%      |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

*Buildings under development for future owner-occupied purpose*

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Huachun as lessee*

Interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the statements of financial position and is amortised over the lease term on a straight-line basis.

Assets held under finance leases are recognised as assets of Huachun at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with Huachun’s general policy on borrowing costs (see the accounting policy below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*Leasehold land and building*

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the statements of financial position and is amortised over the lease term on a straight-line basis.

**Sale and leaseback**

A sale and leaseback transaction involves the sales of machineries and the leasing back of the same assets. When a sale and leaseback transaction results in a finance lease, any excess of sale proceeds over the carrying amount of the relevant asset, if any, is deferred and amortised over the lease term.

**Government grants**

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which Huachun recognises as expenses the related costs for which the grants are intended to compensate.

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

**Retirement benefit costs**

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

**Taxation**

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

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before tax' as reported in the statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Huachun'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 temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

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 assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Huachun expects, at the end of the reporting period, to cover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss.

**Intangible assets***Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

**Impairment of tangible and intangible assets**

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

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

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

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Financial instruments**

Financial assets and financial liabilities are recognised when an entity becomes a party to the contractual provisions of the instrument.

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

*Financial assets*

Huachun's financial assets are mainly loans and receivables.

*Effective interest method*

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

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

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivables, amount due from 江西寶源彩紡有限公司, pledged bank deposits and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

### Impairment of financial assets

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For trade receivables, that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include Huachun's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the due date, observable changes in national or local economic conditions that correlate with default on receivables and the financial performance of the customers.

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

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

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

### *Financial liabilities and equity instruments*

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

### Equity instrument

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

### Financial liabilities

Financial liabilities including trade and other payables, bills payables, amounts due to 江西寶源彩紡有限公司, a shareholder, an affiliated company and third parties, bonds payable and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

#### Effective interest method

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

Interest expense is recognised on an effective interest basis.

#### Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by Huachun are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- (i) the amount of obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the income recognition policies.

#### Derecognition

Huachun 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 Huachun retains substantially all the risks and rewards of ownership of a transferred financial asset, Huachun continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received of receivable is recognised in profit or loss.

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

## 5. KEY SOURCES OF ESTIMATED UNCERTAINTY

In the application of Huachun's accounting policies, which are described in note 4, the directors of Huachun are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

**Useful lives of property, plant and equipment**

Huachun depreciates the property, plant and equipment over their estimated useful lives, using straight-line method, at the rates ranging from 3% to 33.3% per annum. The estimated useful lives that Huachun depreciates the property, plant and equipment reflect the management's estimate of the periods that Huachun intends to derive future economic benefits from the use of the property, plant and equipment by taking into account of industry normal practice. As at 31 December 2011, 2012 and 2013, and 30 April 2014, Huachun's carrying amount of property, plant and equipment were approximately RMB223,392,000, RMB350,625,000, RMB486,392,000 and RMB494,893,000, respectively.

**6. REVENUE**

The following is an analysis of Huachun's revenue from its major products during the years/periods:

|   | Year ended 31 December |         |         | Four months ended |         |
|---|------------------------|---------|---------|-------------------|---------|
|   | 2011                   | 2012    | 2013    | 2013              | 2014    |
|   | RMB'000                | RMB'000 | RMB'000 | RMB'000           | RMB'000 |
|   |                        |         |         | (unaudited)       |         |
| Sales of polyester yarns                  | 178,282                | 338,889 | 424,700 | 139,589           | 101,743 |
| Sales of grey and deep grey melange yarns | –                      | –       | 108,557 | –                 | 91,163  |
|   | 178,282                | 338,889 | 533,257 | 139,589           | 192,906 |

**7. SEGMENT INFORMATION**

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies of Huachun that are regularly reviewed by the chief operating decision-maker (“CODM”) to allocate resources to the segments and to assess their performance.

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

Other than revenue analysis by major products as disclosed in note 6, no operating results and other discrete financial information relating to the respective products is prepared regularly for internal reporting to the CODM for resources allocation and performance assessment. The directors review the (loss) profit after tax of Huachun prepared in accordance of accounting policies of Huachun under PRC GAAP for the purposes of resources allocation and performance assessment for each of the three years ended 31 December 2013 and the four months ended 30 April 2013 and 2014. The operations of Huachun represent a single operating and reportable segment under IFRS 8 “Operating Segments”. The segment revenue and results are same as Huachun's revenue and results for the year/period as reported in the statements of profit or loss and other comprehensive income. The CODM does not review segment assets and segment liabilities.



**Geographical information**

All of Huachun's revenue were derived from sales of polyester yarns, grey and deep grey melange yarns in the PRC based on where goods are delivered to, which are also same as the location of customers.

**Information about major customers**

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

|            | Year ended 31 December |                  |                  | Four months ended<br>30 April |                  |
|------------|------------------------|------------------|------------------|-------------------------------|------------------|
|            | 2011<br>RMB'000        | 2012<br>RMB'000  | 2013<br>RMB'000  | 2013<br>RMB'000               | 2014<br>RMB'000  |
|            |                        |                  |                  | (unaudited)                   |                  |
| Customer A | 19,770                 | N/A <sup>1</sup> | N/A <sup>1</sup> | N/A <sup>1</sup>              | N/A <sup>1</sup> |

<sup>1</sup> The corresponding revenue did not contribute over 10% of the total sales of Huachun.

No revenue from single customer contributed over 10% of the total sales of Huachun for the years ended 31 December 2012 and 2013 and the four months ended 30 April 2013 and 2014.

**8. OTHER INCOME**

|   | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|---|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
|   |                        |                 |                 | (unaudited)                   |                 |
| Interest income on pledged bank deposits<br>and bank balances | 30                     | 226             | 1,114           | 131                           | 345             |
| Government grants ( <i>note</i> )                             | 2,141                  | 2,100           | 2,800           | 1,400                         | 2,050           |
| Processing income   | –                      | 1,756           | 1,647           | 819                           | –               |
| Amortisation of financial guarantee contract                  | –                      | –               | 563             | –                             | 400             |
| Others  | –                      | 3               | 123             | 37                            | 81              |
|   | 2,171                  | 4,085           | 6,247           | 2,387                         | 2,876           |

*Note:* Government grants mainly represent the amounts received from the Ministry of Finance of Industrial Zone, Fengxin County, Yichun City, Jiangxi Province 江西省宜春市新工業園區財政所 for rewarding Huachun's contribution to Fengxin County, Jiangxi Province, amounting to RMB1,741,000, RMB2,000,000, RMB2,800,000, RMB1,400,000 (unaudited) and RMB2,000,000, respectively, for the three years ended 31 December 2013 and four months ended 30 April 2013 and 2014. In addition, an amount of RMB400,000, RMB100,000 and RMB50,000 represents government subsidies received by Huachun during the years ended 31 December 2011 and 2012 and the four months ended 30 April 2014 in relation to technology improvement activities. The grants are accounted for as financial support with no future related costs expected to be incurred nor related to any assets. As such, the grants were recognised in the statements of profit or loss and other comprehensive income when the grants were received.

## 9. FINANCE COSTS

|   | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|---|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| Interest on borrowings wholly repayable<br>within five years: |                        |                 |                 |                               |                 |
| – Bank borrowings   | 5,542                  | 15,817          | 20,644          | 6,229                         | 4,817           |
| – Obligation under finance leases                             | –                      | 1,477           | 3,892           | 1,312                         | 889             |
| – Bond payable  | –                      | –               | 4,233           | –                             | 6,164           |
|   | <u>5,542</u>           | <u>17,294</u>   | <u>28,769</u>   | <u>7,541</u>                  | <u>11,870</u>   |
| Less: amount capitalised                                      | (1,361)                | (3,850)         | (6,228)         | (1,844)                       | –               |
|   | <u>4,181</u>           | <u>13,444</u>   | <u>22,541</u>   | <u>5,697</u>                  | <u>11,870</u>   |

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.97%, 7.81%, 7.47% and 7.92% per annum for the years ended 31 December 2011, 2012 and 2013 and for the four months ended 30 April 2014 to expenditure on qualifying assets.

## 10. (LOSS) PROFIT AND TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR/PERIOD

|  | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|--|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|  | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| (Loss) profit and total comprehensive (expense)<br>Income for the year/period has been<br>arrived at after charging (crediting): |                        |                 |                 |                               |                 |
| Auditor's remuneration   | 12                     | 20              | 390             | 140                           | 82              |
| Cost of inventories recognised as an expense   | 170,254                | 325,174         | 477,416         | 131,234                       | 170,507         |
| Depreciation of property, plant and equipment  | 4,439                  | 9,499           | 13,495          | 3,833                         | 5,948           |
| Release of prepaid lease payments  | 256                    | 289             | 291             | 96                            | 103             |
| Amortisation of intangible assets  | –                      | –               | 33              | –                             | 19              |
| Financial consulting and professional fees   | 1,115                  | 1,556           | 2,545           | 551                           | 257             |
| Financing charges on letter of credit and<br>funds transfer  | –                      | 886             | 1,007           | 112                           | 630             |
| Loss on issuing a financial guarantee contract   | –                      | –               | 1,220           | –                             | –               |
| Other staff costs (excluding directors)  | 13,239                 | 34,673          | 40,074          | 11,423                        | 13,233          |
| Retirement benefits scheme contributions<br>(excluding directors)  | 3,282                  | 9,386           | 12,958          | 3,912                         | 3,982           |
| Total other staff costs  | <u>16,521</u>          | <u>44,059</u>   | <u>53,032</u>   | <u>15,335</u>                 | <u>17,215</u>   |

## 11. DIRECTORS'S REMUNERATIONS

## Directors' emoluments

Details of the emoluments paid or payable to the directors of Huachun during the Relevant Periods are as follows:

|  | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|--|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|  | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| Fees                                     | –                      | –               | –               | –                             | –               |
| Salaries and other benefits              | 97                     | 97              | 97              | 32                            | 32              |
| Retirement benefits scheme contributions | 5                      | 6               | 7               | 2                             | 3               |
| <b>Total emoluments</b>                  | <b>102</b>             | <b>103</b>      | <b>104</b>      | <b>34</b>                     | <b>35</b>       |

Directors:

|  | Year ended 31 December       |   |                              |   | Four months ended 30 April   |   |                              |   |                              |   |
|--|------------------------------|---|------------------------------|---|------------------------------|---|------------------------------|---|------------------------------|---|
|  | 2011                         |   | 2012                         |   | 2013                         |   | 2013                         |   | 2014                         |   |
|  | Salaries and other allowance | Retirement benefit scheme contributions | Salaries and other allowance | Retirement benefit scheme contributions | Salaries and other allowance | Retirement benefit scheme contributions | Salaries and other allowance | Retirement benefit scheme contributions | Salaries and other allowance | Retirement benefit scheme contributions |
|  | RMB'000                      | RMB'000                                 | RMB'000                      | RMB'000                                 | RMB'000                      | RMB'000                                 | RMB'000                      | RMB'000                                 | RMB'000                      | RMB'000                                 |
| Zheng Jun                                  | 97                           | 5                                       | 97                           | 6                                       | 97                           | 7                                       | 32                           | 2                                       | 32                           | 3                                       |
| Feng Jianqiang                             | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       |
| Zhang Jiyuan                               | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       |
| Huang Chunhua                              | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       |
| Chen Yuangi<br>(appointed on 29 June 2011) | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       |
| Chen Xiuyiu<br>(resigned on 29 June 2011)  | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       | –                            | –                                       |
|  | <b>97</b>                    | <b>5</b>                                | <b>97</b>                    | <b>6</b>                                | <b>97</b>                    | <b>7</b>                                | <b>32</b>                    | <b>2</b>                                | <b>32</b>                    | <b>3</b>                                |

No emolument was paid by Huachun to any of the directors as inducement to join or upon joining Huachun or as compensation for loss of office. No directors' emoluments was waived during the Relevant Periods.

**Employees**

The five highest paid individuals of Huachun included one director for the three years ended 31 December 2013 and for the four months ended 30 April 2013 and 2014, details of the emoluments are set out above. The emoluments of the remaining four individuals, for the years ended 31 December 2011, 2012 and 2013 and for the four months ended 30 April 2013 and 2014 whose emoluments are individually below RMB1,000,000 are as follows:

|   | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|---|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| Salaries and other allowances           | 313                    | 333             | 361             | 118                           | 129             |
| Retirement benefit scheme contributions | 24                     | 29              | 33              | 11                            | 14              |
|   | <u>337</u>             | <u>362</u>      | <u>394</u>      | <u>129</u>                    | <u>143</u>      |

## 12. (a) INCOME TAX EXPENSE

|                                   | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|-----------------------------------|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|                                   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| Current tax:                      |                        |                 |                 |                               |                 |
| PRC Enterprise Income Tax ("EIT") | 1,250                  | 4,508           | 3,913           | 430                           | 1,074           |
| Deferred tax                      | –                      | (2,900)         | –               | –                             | –               |
|                                   | <u>1,250</u>           | <u>1,608</u>    | <u>3,913</u>    | <u>430</u>                    | <u>1,074</u>    |

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of PRC entity is 25% from 1 January 2008 onwards.

Huachun has been recognised as a state-encouraged high-new technology enterprise starting from 2013, and the status is valid for a period of three years. Huachun is thus entitled to a preferential tax rate of 15% in 2013, 2014 and 2015, subject to annual review by the relevant tax authority. As such the EIT rate for Huachun is 25% for the years ended 31 December 2011 and 2012, and a reduced tax rate of 15% for the year ended 31 December 2013 and four months ended 30 April 2013 and 2014.

The tax charge for the Relevant Periods can be reconciled to the (loss) profit before tax per the statements of profit or loss and other comprehensive income as follows:

|   | Year ended 31 December |                 |                 | Four months ended<br>30 April |                 |
|---|------------------------|-----------------|-----------------|-------------------------------|-----------------|
|   | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 2013<br>RMB'000               | 2014<br>RMB'000 |
| (Loss) profit before tax                                      | (2,654)                | (12,416)        | 14,865          | (1,630)                       | 3,643           |
| Tax at PRC EIT of 25%   | (664)                  | (3,104)         | 3,716           | 408                           | 911             |
| Tax effect of expenses not deductible<br>for tax purpose      | 1,914                  | 4,712           | 1,769           | 255                           | 587             |
| Tax effect of income not taxable<br>for tax purpose           | –                      | –               | (85)            | (70)                          | (60)            |
| Effect of tax exemptions and concession<br>granted to Huachun | –                      | –               | (1,487)         | (163)                         | (364)           |
| Income tax expense for the year/period                        | 1,250                  | 1,608           | 3,913           | 430                           | 1,074           |

**(b) DEFERRED TAXATION**

The following is the deferred tax asset recognised by Huachun, and the movements thereon during the Relevant Periods are as follows:

|   | <b>Accelerated<br/>tax<br/>depreciation</b><br>RMB'000 |
|---|--|
| At 1 January 2011 and 31 December 2011      | –  |
| Credit to profit or loss                    | 2,900  |
| At 31 December 2012, 2013 and 30 April 2014 | 2,900  |

**13. (LOSS) EARNINGS PER SHARE**

No (loss) earnings per share information is presented having regards the capital structure of Huachun.

## 14. PROPERTY, PLANT AND EQUIPMENT

|   | Buildings<br><i>RMB'000</i> | Plant and<br>machinery<br><i>RMB'000</i> | Office<br>equipment<br><i>RMB'000</i> | Motor<br>vehicles<br><i>RMB'000</i> | Construction<br>in<br>progress<br><i>RMB'000</i> | Total<br><i>RMB'000</i> |
|---|-----------------------------|--|---------------------------------------|-------------------------------------|--|-------------------------|
| <b>COST</b>                               |                             |  |                                       |                                     |  |                         |
| At 1 January 2011                         | 41,329                      | 418                                      | 79                                    | 327                                 | 2,435  | 44,588                  |
| Additions                                 | –                           | 7,331                                    | 279                                   | 5                                   | 175,628  | 183,243                 |
| Transfer from construction<br>in progress | 19,694                      | 119,392                                  | –                                     | –                                   | (139,086)  | –                       |
| At 31 December 2011                       | 61,023                      | 127,141                                  | 358                                   | 332                                 | 38,977   | 227,831                 |
| Additions                                 | –                           | 1,866                                    | 4,538                                 | 920                                 | 129,408  | 136,732                 |
| Transfer from construction<br>in progress | 20,189                      | 58,466                                   | –                                     | –                                   | (78,655)   | –                       |
| At 31 December 2012                       | 81,212                      | 187,473                                  | 4,896                                 | 1,252                               | 89,730   | 364,563                 |
| Additions                                 | –                           | 2,892                                    | 907                                   | –                                   | 145,463  | 149,262                 |
| Transfer from construction<br>in progress | 184,802                     | 12,861                                   | –                                     | –                                   | (197,663)  | –                       |
| At 31 December 2013                       | 266,014                     | 203,226                                  | 5,803                                 | 1,252                               | 37,530   | 513,825                 |
| Additions                                 | –                           | 2,367                                    | 8                                     | –                                   | 12,074   | 14,449                  |
| At 30 April 2014                          | 266,014                     | 205,593                                  | 5,811                                 | 1,252                               | 49,604   | 528,274                 |
| <b>ACCUMULATED<br/>DEPRECIATION</b>       |                             |  |                                       |                                     |  |                         |
| At 1 January 2011                         | –                           | –  | –                                     | –                                   | –  | –                       |
| Charged for the year                      | 1,520                       | 2,870                                    | 19                                    | 30                                  | –  | 4,439                   |
| At 31 December 2011                       | 1,520                       | 2,870                                    | 19                                    | 30                                  | –  | 4,439                   |
| Charged for the year                      | 2,112                       | 7,079                                    | 237                                   | 71                                  | –  | 9,499                   |
| At 31 December 2012                       | 3,632                       | 9,949                                    | 256                                   | 101                                 | –  | 13,938                  |
| Charged for the year                      | 4,242                       | 8,672                                    | 468                                   | 113                                 | –  | 13,495                  |
| At 31 December 2013                       | 7,874                       | 18,621                                   | 724                                   | 214                                 | –  | 27,433                  |
| Charged for the period                    | 2,634                       | 3,102                                    | 174                                   | 38                                  | –  | 5,948                   |
| At 30 April 2014                          | 10,508                      | 21,723                                   | 898                                   | 252                                 | –  | 33,381                  |
| <b>CARRYING AMOUNTS</b>                   |                             |  |                                       |                                     |  |                         |
| At 31 December 2011                       | 59,503                      | 124,271                                  | 339                                   | 302                                 | 38,977   | 223,392                 |
| At 31 December 2012                       | 77,580                      | 177,524                                  | 4,640                                 | 1,151                               | 89,730   | 350,625                 |
| At 31 December 2013                       | 258,140                     | 184,605                                  | 5,079                                 | 1,038                               | 37,530   | 486,392                 |
| At 30 April 2014                          | 255,506                     | 183,870                                  | 4,913                                 | 1,000                               | 49,604   | 494,893                 |

All of Huachun's buildings are located in the PRC under medium-term lease.

The carrying amount of plant and machinery includes an amount of RMB63,703,000, RMB60,790,000 and RMB59,819,000 as at 31 December 2012 and 2013 and 30 April 2014 in respect of assets held under finance leases.

Buildings and plant and machinery with an aggregate carrying amount of RMB170,022,000, RMB214,322,000, RMB259,543,000 and RMB256,774,000 have been pledged to secure general banking facilities granted to Huachun as at 31 December 2011, 2012 and 2013 and 30 April 2014, respectively (see note 34).

#### 15. INTANGIBLE ASSETS

|  | <b>Patent</b><br><i>RMB'000</i> |
|--|---------------------------------|
| <b>COST</b>                                  |                                 |
| At 1 January 2011, 31 December 2011 and 2012 | –                               |
| Additions                                    | 250                             |
|  | <hr/>                           |
| At 31 December 2013 and 30 April 2014        | 250                             |
|  | <hr/>                           |
| <b>AMORTISATION</b>                          |                                 |
| At 1 January 2011, 31 December 2011 and 2012 | –                               |
| Charged for the year                         | 33                              |
|  | <hr/>                           |
| At 31 December 2013                          | 33                              |
| Charged for the period                       | 19                              |
|  | <hr/>                           |
| At 30 April 2014                             | 52                              |
|  | <hr/>                           |
| <b>CARRYING AMOUNTS</b>                      |                                 |
| At 31 December 2011 and 2012                 | –                               |
|  | <hr/> <hr/>                     |
| At 31 December 2013                          | 217                             |
|  | <hr/> <hr/>                     |
| At 30 April 2014                             | 198                             |
|  | <hr/> <hr/>                     |

In May 2013, Huachun acquired a patent for five years in relation to a new technology for fabric manufacturing registered by Donghua University in the PRC with a consideration of RMB250,000.

#### 16. PREPAID LEASE PAYMENTS

All of Huachun's prepaid lease payments are located in the PRC under medium-term lease.

|                                    | <b>At 31 December</b> |                |                | <b>At 30 April</b> |
|------------------------------------|-----------------------|----------------|----------------|--------------------|
|                                    | <b>2011</b>           | <b>2012</b>    | <b>2013</b>    | <b>2014</b>        |
|                                    | <i>RMB'000</i>        | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>     |
| Analysed for reporting purpose as: |                       |                |                |                    |
| Current assets                     | 289                   | 289            | 289            | 289                |
| Non-current assets                 | 13,118                | 12,829         | 12,538         | 12,435             |
|                                    | <hr/>                 | <hr/>          | <hr/>          | <hr/>              |
|                                    | 13,407                | 13,118         | 12,827         | 12,724             |
|                                    | <hr/> <hr/>           | <hr/> <hr/>    | <hr/> <hr/>    | <hr/> <hr/>        |

Prepaid lease payments with a carrying amount of RMB13,407,000, RMB13,118,000, RMB12,827,000 and RMB12,724,000 have been pledged to secure general banking facilities granted to Huachun as at 31 December 2011, 2012 and 2013 and 30 April 2014, respectively (see note 34).

## 17. INVENTORIES

|                  | At 31 December |               |               | At 30 April   |
|------------------|----------------|---------------|---------------|---------------|
|                  | 2011           | 2012          | 2013          | 2014          |
|                  | RMB'000        | RMB'000       | RMB'000       | RMB'000       |
| Raw materials    | 13,557         | 13,707        | 16,880        | 20,287        |
| Work in progress | 3,956          | 5,152         | 3,570         | 3,411         |
| Finished goods   | 9,891          | 37,803        | 33,756        | 12,493        |
|                  | <u>27,404</u>  | <u>56,662</u> | <u>54,206</u> | <u>36,191</u> |

## 18. TRADE AND OTHER RECEIVABLES

|  | At 31 December |               |               | At 30 April  |
|--|----------------|---------------|---------------|--------------|
|  | 2011           | 2012          | 2013          | 2014         |
|  | RMB'000        | RMB'000       | RMB'000       | RMB'000      |
| Trade receivables                          | –              | 7,060         | –             | –            |
| Advance payment to suppliers               | 3,619          | 5,773         | 30,994        | 5,534        |
| Value-added tax receivables                | 23,688         | 25,068        | 8,678         | 3,736        |
| Prepayments, deposits and other receivable | 1              | 60            | 49            | 49           |
|  | <u>27,308</u>  | <u>37,961</u> | <u>39,721</u> | <u>9,319</u> |

In general, Huachun will receive advances before the products are delivered. Huachun allows some of the customers with good relationship to have credit terms of 15 – 90 days depending on creditability of the customers.

No interest is charged on overdue trade receivables. In determining the recoverability of trade receivables, Huachun considers any change in the credit policy 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, presented based on the invoice date at the end of each reporting period, which approximated the respective revenue recognition dates.

|              | At 31 December |              |          | At 30 April |
|--------------|----------------|--------------|----------|-------------|
|              | 2011           | 2012         | 2013     | 2014        |
|              | RMB'000        | RMB'000      | RMB'000  | RMB'000     |
| 1 – 30 days  | –              | 4,450        | –        | –           |
| 31 – 90 days | –              | 1,528        | –        | –           |
| Over 90 days | –              | 1,082        | –        | –           |
|              | <u>–</u>       | <u>7,060</u> | <u>–</u> | <u>–</u>    |

Before accepting any new customer, Huachun has assessed the potential customer's credit quality. Huachun 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. For the accounts receivables which are neither past due nor impaired, the management assessed the balances are with good credit quality with reference to their past repayment history.

Included in Huachun's trade receivable balance are debtors with aggregate carrying amount of RMB2,610,000 as at 31 December 2012 which are past due as at the reporting date for which Huachun has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. Huachun does not hold any collateral over these balances.



## Ageing of trade receivables which are past due but not impaired

|                              | At 31 December  |                 |                 | At 30 April     |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
|                              | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Over 30 days                 | -               | 2,610           | -               | -               |
| <b>19. BILLS RECEIVABLES</b> |                 |                 |                 |                 |
|                              | At 31 December  |                 |                 | At 30 April     |
|                              | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| 1 – 30 days                  | 8,140           | 500             | 3,545           | 4,564           |
| 31 – 60 days                 | 1,030           | 642             | 2,718           | 650             |
| 61 – 90 days                 | 500             | 300             | 400             | -               |
| 91 – 120 days                | 300             | 500             | 1,500           | 2,480           |
| 121 – 150 days               | 200             | -               | 350             | 2,250           |
| Over 150 days                | -               | -               | 2,505           | 2,300           |
|                              | <u>10,170</u>   | <u>1,942</u>    | <u>11,018</u>   | <u>12,244</u>   |

These bills receivables have not been matured at end of the respective reporting periods.

The followings were Huachun's bills receivable as at 31 December 2011, 2012, 2013 and 30 April 2014 that were transferred to suppliers by endorsing those bills receivables on a full recourse basis. As Huachun has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and the corresponding trade payables. These bills receivable are carried at amortised cost in Huachun's statements of financial position.

|  | Bills receivables endorsed<br>to suppliers with full recourse |                 |                 | At 30 April     |
|--|---|-----------------|-----------------|-----------------|
|  | 2011<br>RMB'000   | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Carrying amount of bills receivable          | 9,270   | 1,792           | 9,005           | 11,387          |
| Carrying amount of associated trade payables | -   | -               | 4,400           | 4,490           |
| Carrying amount of associated other payables | 9,270   | 1,792           | 4,605           | 6,897           |

## 20. (a) AMOUNT DUE (TO) FROM 江西寶源彩紡有限公司

At 31 December 2011, 2012, 2013 and 30 April 2014, amount due (to) from 江西寶源彩紡有限公司, with carrying amount of (RMB6,090,000), (RMB15,000,000), RMB92,500,000 and RMB63,700,000 respectively were unsecured, interest-free and repayable on demand. This amount will be settled before the completion of the Acquisition. The sister of the general manager of Huachun is the general manager of this entity.

## (b) AMOUNTS DUE TO THIRD PARTIES

At 31 December 2011, 2012 and 2013, amounts due to third parties with carrying amount of RMB94,500,000, RMB33,156,000 and RMB10,000,000 respectively were unsecured, interest-free and repayable on demand. The balances were fully repaid in 2014.

## 21. PLEDGED BANK DEPOSITS/CASH AND BANK BALANCES

|                       | At 31 December  |                 |                 | At 30 April     |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Pledged bank deposits | 2,220           | 29,912          | 34,446          | 49,350          |
| Bank balances         | 1,744           | 10,676          | 12,753          | 17,790          |
|                       | <u>3,964</u>    | <u>40,588</u>   | <u>47,199</u>   | <u>67,140</u>   |

Pledged bank deposits and bank balances of Huachun carry interest at market rates per annum which are as follows:

|                       | At 31 December       |                      |                      | At 30 April          |
|-----------------------|----------------------|----------------------|----------------------|----------------------|
|                       | 2011<br>RMB'000      | 2012<br>RMB'000      | 2013<br>RMB'000      | 2014<br>RMB'000      |
| Pledged bank deposits | 0.86%                | 1.02%                | 2.54%                | 2.42%                |
| Bank balances         | <u>0.01% – 0.50%</u> | <u>0.01% – 0.35%</u> | <u>0.01% – 0.35%</u> | <u>0.01% – 0.35%</u> |

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to Huachun. Deposits amounting to RMB2,220,000, RMB29,912,000, RMB34,446,000 and RMB49,350,000, respectively, as at 31 December 2011, 2012, 2013 and 30 April 2014, have been pledged to banks for settlement of bills payables upon maturity.

## 22. TRADE AND OTHER PAYABLES

|   | At 31 December  |                 |                 | At 30 April     |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Trade payables  | 21,228          | 34,054          | 45,044          | 32,679          |
| Other payables  | 491             | 827             | 1,180           | 1,649           |
| Other tax payables  | 1,618           | 3,215           | 4,004           | 3,672           |
| Accrual for salary and wages                                | 5,611           | 17,276          | 28,712          | 31,646          |
| Accrued charges   | 2,583           | 5,404           | 5,198           | 5,372           |
| Payable for acquisition of<br>property, plant and equipment | 13,635          | 6,903           | 26,313          | 19,110          |
| Deposits from customers                                     | 1,866           | 6,484           | 6,027           | 4,199           |
|   | <u>47,032</u>   | <u>74,163</u>   | <u>116,478</u>  | <u>98,237</u>   |

The following is an analysis of trade payables by age, presented based on the invoice date:

|              | At 31 December  |                 |                 | At 30 April     |
|--------------|-----------------|-----------------|-----------------|-----------------|
|              | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| 1 – 30 days  | 21,220          | 11,130          | 20,663          | 17,772          |
| 30 – 90 days | 6               | 22,199          | 18,485          | 14,907          |
| Over 90 days | 2               | 725             | 5,896           | –               |
| Total        | <u>21,228</u>   | <u>34,054</u>   | <u>45,044</u>   | <u>32,679</u>   |

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

### 23. BILLS PAYABLES

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

|              | At 31 December  |                 |                 | At 30 April     |
|--------------|-----------------|-----------------|-----------------|-----------------|
|              | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| 1 – 30 days  | 5,251           | 7,000           | 11,090          | 16,000          |
| 30 – 90 days | –               | 35,218          | 12,100          | 17,100          |
| Over 90 days | 5,762           | 27,022          | 31,700          | 39,800          |
| Total        | 11,013          | 69,240          | 54,890          | 72,900          |

### 24. AMOUNT DUE TO AN AFFILIATED COMPANY/AMOUNT DUE TO A SHAREHOLDER

As at 31 December 2011, the amount due to an affiliated company represented the advance from 奉新寶誠房地產有限公司 and it was non-trade in nature, unsecured, interest-free and fully repaid in 2012. A shareholder who is also a director of Huachun has significant influence over 奉新寶誠房地產有限公司.

As at 31 December 2011, the amount due to a shareholder, who has significant influence over Huachun, was non-trade in nature, unsecured, interest-free and fully repaid in 2012.

### 25. BANK BORROWINGS

|   | At 31 December  |                 |                 | At 30 April     |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Secured bank borrowing (note i)   | 94,750          | 221,000         | 237,000         | 202,000         |
| Carrying amount repayable (note ii):  |                 |                 |                 |                 |
| Within one year   | 87,750          | 191,000         | 200,000         | 182,000         |
| More than one year, but not exceeding two years   | 7,000           | –               | 37,000          | –               |
| More than two years but not more than five years  | –               | 30,000          | –               | –               |
|   | 94,750          | 221,000         | 237,000         | 182,000         |
| Carrying amount of bank loan that is repayable on demand due to breach of loan covenants (shown under current liabilities) (note iii) | –               | –               | –               | 20,000          |
| Less: Amounts due within one year shown under current liabilities   | (87,750)        | (191,000)       | (200,000)       | (202,000)       |
| Amounts shown under non-current liabilities   | 7,000           | 30,000          | 37,000          | –               |

*Notes:*

- i. These bank borrowings were secured by Huachun's land use rights, property, plant and equipment and bank deposits (see note 34).
- ii. The amounts due are based on scheduled repayment dates set out in the loan agreements.
- iii. During the four months ended 30 April 2014, in respect of a bank loan with a carrying amount of RMB20,000,000 as at 30 April 2014, Huachun breached certain of the terms of the bank loan, which are primarily related to the debt-asset ratio and net asset requirement of Huachun. On discovery of the breach, the directors of Huachun informed the lender, full amount was subsequently repaid after 30 April 2014 with Huachun's existing working capital and cash from repayment of an amount due from a third party. The directors of Huachun believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of Huachun.

All bank borrowings at the end of the reporting periods are denominated in RMB. No single borrowing is individually material, and terms and conditions of all borrowings are presented by appropriate groupings.

The ranges of effective interest rates (which are also contracted interest rates) on Huachun's borrowings are as follows:

|                          | <b>At 31 December</b> |                |                | <b>At 30 April</b> |
|--------------------------|-----------------------|----------------|----------------|--------------------|
|                          | <b>2011</b>           | <b>2012</b>    | <b>2013</b>    | <b>2014</b>        |
|                          | <i>RMB'000</i>        | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>     |
| Effective interest rate: |                       |                |                |                    |
| Fixed-rate borrowings    | Nil                   | 6.94% – 8.20%  | 7.20% – 8.10%  | 7.8%               |
| Variable-rate borrowings | 6.56% – 8.96%         | 7.20% – 8.97%  | 6.00% – 8.97%  | 6.00% – 8.96%      |

**26. OBLIGATIONS UNDER FINANCE LEASES**

|                                     | <b>At 31 December</b> |                |                | <b>At 30 April</b> |
|-------------------------------------|-----------------------|----------------|----------------|--------------------|
|                                     | <b>2011</b>           | <b>2012</b>    | <b>2013</b>    | <b>2014</b>        |
|                                     | <i>RMB'000</i>        | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>     |
| Analysed for reporting purposes as: |                       |                |                |                    |
| Current liabilities                 | –                     | 20,716         | 20,532         | 20,394             |
| Non-current liabilities             | –                     | 33,137         | 12,579         | 6,606              |
|                                     | –                     | 53,853         | 33,111         | 27,000             |

Huachun leased certain of its property, plant and equipment under finance leases. The lease terms ranged from 2 to 3 years. Interest rates underlying all obligations under finance leases are variable and based on the People's Bank of China borrowing bench mark rate during the Relevant Periods, which ranged from 3.35% to 3.42% per annum during the Relevant Periods.

|  | Minimum lease payments |                   |               |                | Present value of minimum lease payments |                   |               |                |
|--|------------------------|-------------------|---------------|----------------|---|-------------------|---------------|----------------|
|  |                        | As at 31 December |               | As at 30 April |   | As at 31 December |               | As at 30 April |
|  | 2011                   | 2012              | 2013          | 2014           | 2011                                    | 2012              | 2013          | 2014           |
|  | RMB'000                | RMB'000           | RMB'000       | RMB'000        | RMB'000                                 | RMB'000           | RMB'000       | RMB'000        |
| Amounts payable under finance leases:  |                        |                   |               |                |   |                   |               |                |
| Within one year  | -                      | 24,608            | 22,988        | 22,442         | -                                       | 20,716            | 20,532        | 20,394         |
| In more than one year, but not more than two years                               | -                      | 23,014            | 13,274        | 6,819          | -                                       | 20,558            | 12,579        | 6,606          |
| In more than two years but not more than five years                              | -                      | 13,274            | -             | -              | -                                       | 12,579            | -             | -              |
|  |                        | <u>60,896</u>     | <u>36,262</u> | <u>29,261</u>  |   | <u>53,853</u>     | <u>33,111</u> | <u>27,000</u>  |
| Less: Future finance charges   | -                      | (7,043)           | (3,151)       | (2,261)        | N/A                                     | N/A               | N/A           | N/A            |
| Present value of lease obligations   | -                      | <u>53,853</u>     | <u>33,111</u> | <u>27,000</u>  | -                                       | <u>53,853</u>     | <u>33,111</u> | <u>27,000</u>  |
| Less: Amount due for settlement with 12 months (shown under current liabilities) |                        |                   |               |                | -                                       | (20,716)          | (20,532)      | (20,394)       |
| Amount due for settlement after 12 months  |                        |                   |               |                | <u>-</u>                                | <u>33,137</u>     | <u>12,579</u> | <u>6,606</u>   |

As at 31 December 2012 and 2013 and 30 April 2014, Huachun's obligations under the finance leases are secured by deposit of RMB4,090,000 (see note 34).

Huachun's obligations under finance leases are secured by the lessor's charge over the leased assets and denominated in RMB.

Huachun entered into sale and leaseback arrangements with an independent third party in relation to certain of Huachun's plant and machineries during the years ended 31 December 2012. Huachun considered that these lease arrangements were finance lease as substantially all the risks and rewards incidental to ownership of these machineries retained with Huachun. In addition, Huachun had options to purchase the machineries with a nominal amount at the end of the lease terms. The lease term was 3 years. Interest rates underlying all obligations under finance leases were variable and based on the People's Bank of China borrowing bench mark rate during the Relevant Periods. No arrangements had been entered into for contingent rental payments.

## 27. BOND PAYABLE

In 2013, Shenzhen Stock Exchange approved Huachun's application for the Small and Medium-sized Enterprises pilot programme for the issuance of private placement bonds. On 26 September 2013, Huachun issued a private placement corporate bonds (the "Bonds") which is secured by plant and machinery with carrying amounts of RMB65,129,000 and RMB63,554,000 as at 31 December 2013 and 30 April 2014, respectively and is also guaranteed by a third party, in principal amount of RMB200,000,000 at par, which is listed on the Shenzhen Stock Exchange. The Bond is limited to qualified investors according to the pilot programme of Shenzhen Stock Exchange. The Bond carries a fixed annual interest rate of 7.80% with a maturity period of 3 years, and the interest will be paid quarterly in arrears with the first interest payment date on 26 December 2013. The principal will be fully repayable on the maturity date.

The Bond recognised in the statements of financial position are calculated as follows:

|   | 2011    | At 31 December |         | At 30 April |
|---|---------|----------------|---------|-------------|
|   | RMB'000 | 2012           | 2013    | 2014        |
|   |         | RMB'000        | RMB'000 | RMB'000     |
| Face value of bond on issue date                  | –       | –              | 200,000 | 200,000     |
| Transaction costs allocated to bonds payable      | –       | –              | (4,000) | (4,000)     |
| Bond payable on initial recognition on issue date | –       | –              | 196,000 | 196,000     |
| Interest expense                                  | –       | –              | 4,233   | 6,164       |
| Interest paid                                     | –       | –              | (3,900) | (3,900)     |
| Carrying amount at the end of the year/period     | –       | –              | 196,333 | 198,264     |

## 28. REGISTERED CAPITAL

|  | RMB'000 |
|--|---------|
| Paid-in registered capital ( <i>note</i> ) | 120,000 |

*Note:* The capital verification report was performed by a certified public accountant registered in the PRC, Nanchang Fengyuan Certified Public Accountants Co. Ltd 南昌豐源會計師事務所有限責任公司, on 30 April 2010.

## 29. CAPITAL RISK MANAGEMENT

Huachun manages its capital to ensure that entities in Huachun will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. Huachun 's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of Huachun consists of net debt (which includes amounts due to 江西寶源彩紡有限公司, an affiliated company, a shareholder and third parties, obligations under finance leases, bank borrowings, bond payable, net of cash and cash equivalents) and equity attributable to owners of Huachun, comprising share capital.

The management of Huachun reviews the capital structure on an annual basis. As a part of this review, the management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, Huachun will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

## 30. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

|   | 2011    | At 31 December |         | At 30 April |
|---|---------|----------------|---------|-------------|
|   | RMB'000 | 2012           | 2013    | 2014        |
|   |         | RMB'000        | RMB'000 | RMB'000     |
| <b>Financial assets</b>                                     |         |                |         |             |
| Loans and receivables (including cash and cash equivalents) | 14,134  | 49,591         | 150,717 | 143,084     |
| <b>Financial liabilities</b>                                |         |                |         |             |
| Amortised cost  | 289,707 | 380,180        | 570,760 | 526,601     |
| Financial guarantee liabilities                             | –       | –              | 657     | 257         |

**b. Financial risk management objectives and policies**

Huachun 's major financial instruments include trade receivables, bills receivables, amount due (to) from 江西寶源彩紡有限公司, pledged bank deposits, cash and bank balances, trade and other payables, bills payables, amounts due to an affiliated company, a shareholder and third parties, obligations under finance leases, bond payable, bank borrowings and financial guarantee contracts.

Details of these financial instruments of Huachun are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*(i) Interest rate risk*

Huachun is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings and bond payable (see note 25).

Huachun is also exposed to cash flow interest rate risk in relation to the variable-rate pledged bank deposits, obligation under finance lease, bank balances and bank borrowings (see notes 21 and 25).

Huachun's exposure to cash flow interest rates risk on financial liabilities is detailed in the liquidity risk management section of this note. Huachun 's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark borrowings rate in the PRC arising from the bank borrowings and fluctuation of bank deposit rates in the PRC arising from bank balances and pledged bank deposits.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings and obligation under finance lease at the end of the reporting period. No sensitivity is presented for variable-rate pledged bank deposits and bank balances as the directors considered that the interest rate fluctuation is minimal. For bank borrowings and obligation under finance lease, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis points increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables held constant, Huachun's post-tax losses (net of interest capitalised) for the years ended 31 December 2011 and 2012 and four months ended 30 April 2013 would increase/decrease by RMB268,000, RMB606,000 and RMB194,000 (unaudited) respectively. In addition, Huachun's post-tax profit (net of interest capitalised) for the year ended 31 December 2013 and four months ended 30 April 2014 would decrease/increase by RMB754,000 and RMB319,000, respectively.

In the opinion of the management, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial liabilities as the year end exposure does not reflect the exposure during the year/period.

*(ii) Credit risk*

Huachun's maximum exposure to credit risk which will cause a financial loss to failure to discharge obligations by the counterparties and financial guarantees provided by Huachun is arising from:

- the carrying amount of the respective recognised financial assets as stated in Huachun's statements of financial position; and
- the amount of contingent liabilities in relation to the financial guarantee provided by Huachun as disclosed in note 31.

In order to minimise the credit risk of trade receivables, the management of Huachun has delegated a team responsible for determination of credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Huachun also requests deposits from customers prior to sales transactions. In addition, Huachun reviews the recoverable amount of each individual debt at the end of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of Huachun considers that Huachun's credit risk is significantly reduced.

The credit risk for bills receivables, pledged bank deposits and bank balances is considered as minimal as such amounts are to be settled by or placed with banks with good reputation in PRC.

Huachun has limited credit risk for financial guarantee contracts. Management periodically monitors the financial position of the third party to ensure the third party is financially viable to settle the debts due to the banking facilities drawn from financial institutions.

Huachun has concentration of credit risk on Huachun's trade receivables and bills receivables as all the customers are involved in clothing or textile industry and located in the PRC.

The credit risk on amount due from 江西寶源彩紡有限公司 is considered as minimal as the management periodically monitors the financial position of this entity to ensure the the entity is financially viable to settle the debts.

Other than concentration of credit risk on liquid funds which are deposited with several banks with good reputation in PRC and save as disclosed elsewhere in the Financial Information, Huachun does not have any other significant concentration of credit risk.

(iii) *Liquidity risk*

In preparing the Underlying Financial Statements, the management of Huachun has given careful consideration to the future liquidity and going concern of Huachun in light of the fact that Huachun's current liabilities exceeded its current assets by RMB224,549,000, RMB265,640,000, RMB150,307,000 and RMB195,752,000, respectively, as at 31 December 2011, 2012 and 2013 and 30 April 2014. The directors of Huachun are satisfied that Huachun will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration the unutilised banking facilities already in place, renewal of short-term borrowings based on past experience and relationship with banks and internal financial resources and accordingly, the Underlying Financial Statements have been prepared on a going concern basis.

The following table details Huachun's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which Huachun can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting periods. The amounts included below for variable rate financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting periods.

|                                     | Weighted<br>average<br>effective<br>interest rate<br>% | Repayable on<br>demand or<br>less than<br>1 month<br>RMB'000 | 1 – 3<br>months<br>RMB'000 | 3 months<br>to<br>1 year<br>RMB'000 | Total<br>1 – 5<br>years<br>undiscounted<br>cash flows<br>RMB'000 | Carrying<br>amount<br>RMB'000 |
|-------------------------------------|--|--|----------------------------|-------------------------------------|--|-------------------------------|
| <b>At 31 December 2011</b>          |  |  |                            |                                     |  |                               |
| Trade and other payables            | –  | 35,354   | –                          | –                                   | 35,354   | 35,354                        |
| Bills payables                      | –  | –  | 11,013                     | –                                   | 11,013   | 11,013                        |
| Amount due to a shareholder         | –  | 43,000   | –                          | –                                   | 43,000   | 43,000                        |
| Amount due to an affiliated company | –  | 5,000  | –                          | –                                   | 5,000  | 5,000                         |
| Amounts due to third parties        | –  | 94,500   | –                          | –                                   | 94,500   | 94,500                        |
| Amount due to 江西寶源彩紡有限公司            | –  | 6,090  | –                          | –                                   | 6,090  | 6,090                         |
| Bank borrowings – variable          | 7.97   | –  | –                          | 93,040                              | 7,831  | 94,750                        |
|                                     |  | 183,944  | 11,013                     | 93,040                              | 7,831  | 289,707                       |



|  | Weighted<br>average<br>effective<br>interest rate<br>% | Repayable on<br>demand or<br>less than<br>1 month<br>RMB'000 | 1 – 3<br>months<br>RMB'000 | 3 months<br>to<br>1 year<br>RMB'000 | 1 – 5<br>years<br>RMB'000 | Total<br>undiscounted<br>cash flows<br>RMB'000 | Carrying<br>amount<br>RMB'000 |
|--|--|--|----------------------------|-------------------------------------|---------------------------|--|-------------------------------|
| <b>At 31 December 2012</b>             |  |  |                            |                                     |                           |  |                               |
| Trade and other payables               | –  | 41,784   | –                          | –                                   | –                         | 41,784   | 41,784                        |
| Bills payables                         | –  | 12,000   | 10,000                     | 47,240                              | –                         | 69,240   | 69,240                        |
| Amounts due to third parties           | –  | 33,156   | –                          | –                                   | –                         | 33,156   | 33,156                        |
| Amount due to 江西寶源彩紡有限公司               | –  | 15,000   | –                          | –                                   | –                         | 15,000   | 15,000                        |
| Obligation under finance lease         | 3.36   | 1,132  | 5,252                      | 18,224                              | 36,288                    | 60,896   | 53,853                        |
| Bank borrowings                        |  |  |                            |                                     |                           |  |                               |
| – fixed                                | 7.29   | –  | –                          | 71,504                              | –                         | 71,504   | 69,000                        |
| – variable                             | 8.04   | –  | –                          | 127,628                             | 35,951                    | 163,579  | 152,000                       |
| Financial guarantee contracts (note i) | –  | 30,000   | –                          | –                                   | –                         | 30,000   | –                             |
|  |  | 133,072  | 15,252                     | 264,596                             | 72,239                    | 485,159  | 434,033                       |
| <b>At 31 December 2013</b>             |  |  |                            |                                     |                           |  |                               |
| Trade and other payables               | –  | 72,537   | –                          | –                                   | –                         | 72,537   | 72,537                        |
| Bills payables                         | –  | 15,700   | 16,000                     | 23,190                              | –                         | 54,890   | 54,890                        |
| Amounts due to third parties           | –  | 10,000   | –                          | –                                   | –                         | 10,000   | 10,000                        |
| Obligation under finance lease         | 3.36   | 1,000  | 4,986                      | 17,002                              | 13,274                    | 36,262   | 33,111                        |
| Bonds payables                         | 7.80   | –  | 3,900                      | 11,700                              | 227,300                   | 242,900  | 196,333                       |
| Bank borrowings                        |  |  |                            |                                     |                           |  |                               |
| – fixed                                | 7.67   | 20,068   | –                          | 25,823                              | –                         | 45,891   | 45,000                        |
| – variable                             | 7.42   | –  | –                          | 162,781                             | 41,037                    | 203,818  | 192,000                       |
| Financial guarantee contracts (note i) | –  | 50,971   | –                          | –                                   | –                         | 50,971   | 657                           |
|  |  | 170,276  | 24,886                     | 240,496                             | 281,611                   | 717,269  | 604,528                       |
| <b>At 30 April 2014</b>                |  |  |                            |                                     |                           |  |                               |
| Trade and other payables               | –  | 53,437   | –                          | –                                   | –                         | 53,437   | 53,437                        |
| Bills payables                         | –  | 9,600  | 30,200                     | 33,100                              | –                         | 72,900   | 72,900                        |
| Obligation under finance lease         | 3.36   | 3,986  | 1,735                      | 16,721                              | 6,819                     | 29,261   | 27,000                        |
| Bonds payables                         | 7.80   | –  | 3,900                      | 11,700                              | 222,100                   | 237,700  | 198,264                       |
| Bank borrowings                        |  |  |                            |                                     |                           |  |                               |
| – fixed                                | 7.80   | –  | –                          | 5,229                               | –                         | 5,229  | 5,000                         |
| – variable                             | 7.41   | 20,064   | 40,408                     | 143,887                             | –                         | 204,359  | 197,000                       |
| Financial guarantee contracts (note i) | –  | 30,971   | –                          | –                                   | –                         | 30,971   | 257                           |
|  |  | 118,058  | 76,243                     | 210,637                             | 228,919                   | 633,857  | 553,858                       |

*Note i.* The amounts included above for financial guarantee contracts are the maximum amounts the Huachun could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting periods, the Huachun considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

**c. Fair value measurements of financial instruments**

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of Huachun consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate to their fair values.

**31. CONTINGENT LIABILITIES**

|   | At 31 December    |                   |                   | At 30 April       |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2011              | 2012              | 2013              | 2014              |
|   | RMB'000           | RMB'000           | RMB'000           | RMB'000           |
| Guarantee given to banks, in respect of banking facilities to a third party             |                   |                   |                   |                   |
| – amount that could be required to be paid if the guarantee was called upon in entirety | –                 | 30,000            | 50,971            | 30,971            |
| – amount utilised   | –                 | 30,000            | 46,260            | 26,260            |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

During the year ended 31 December 2012, Huachun issued financial guarantees to banks in respect of banking facilities granted to a third party at nil consideration. The fair value at inception is insignificant having regards the amount of assets pledged by a third party to banks for facilities granted to it.

In 2013, Huachun issued another financial guarantee to a bank. Fair value of this financial guarantees is RMB1,220,000 at initial recognition based on valuation performed by an independent valuer, Roma Appraisals Limited, Unit 3806, 38/F, China Resources Building, 26 Harbour Road, Wan Chai, Hong Kong. Unamortised portion in the amount of which RMB657,000 and RMB257,000, respectively, have not been amortised in accordance to the income recognition policies as at 31 December 2013 and 30 April 2014 respectively. On 15 July 2014, all guarantees have been released.

**32. CAPITAL COMMITMENTS**

|   | At 31 December    |                   |                   | At 30 April       |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2011              | 2012              | 2013              | 2014              |
|   | RMB'000           | RMB'000           | RMB'000           | RMB'000           |
| Capital expenditure contracted for but not provided in the Financial Information in respect of acquisition of property, plant and equipment | 494,107           | 174,419           | 10,432            | 3,657             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

**33. RETIREMENT BENEFIT SCHEME**

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

The total cost charged to statement of profit or loss and other comprehensive income of approximately RMB3,282,000, RMB9,386,000, RMB12,958,000, RMB3,912,000 (unaudited) and RMB3,982,000, respectively, represent contribution to the schemes for the three years ended 31 December 2013 and the four months ended 30 April 2013 and 2014.

**34. PLEDGE OF ASSETS**

Assets with the following carrying amounts have been pledged to secure general banking facilities granted to Huachun or borrowings of Huachun (see note 25):

|   | At 31 December  |                 |                 | At 30 April     |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2011<br>RMB'000 | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 |
| Property, plant and equipment                         | 170,022         | 214,322         | 259,543         | 256,774         |
| Prepaid lease payments                                | 13,407          | 13,118          | 12,827          | 12,724          |
| Pledged bank deposits                                 | 2,220           | 29,912          | 34,446          | 49,350          |
| Secured deposits for obligations under finance leases | –               | 4,090           | 4,090           | 4,090           |
|   | <u>185,649</u>  | <u>261,442</u>  | <u>310,906</u>  | <u>322,938</u>  |

**35. RELATED PARTY DISCLOSURES**

Save as those disclosed elsewhere in this Financial Information, Huachun did not have any other material related party transactions with related parties during the Relevant Periods beside those disclosed below:

**Compensation of key management personnel**

|                     | Year ended 31 December |                 |                 | Four months ended           |                 |
|---------------------|------------------------|-----------------|-----------------|-----------------------------|-----------------|
|                     | 2011<br>RMB'000        | 2012<br>RMB'000 | 2013<br>RMB'000 | 30 April<br>2013<br>RMB'000 | 2014<br>RMB'000 |
| Short-term benefits | <u>97</u>              | <u>97</u>       | <u>97</u>       | <u>32</u>                   | <u>32</u>       |

(unaudited)

Key management personnel represent directors and the general manager of Huachun. Except for a director, Zheng Jun, who has emoluments during the Relevant Periods, there were no benefits paid to other key management personnel.

**36. MAJOR NON-CASH TRANSACTIONS**

During the year ended 31 December 2012, Huachun entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB54,296,000.

**B. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by Huachun in respect of any period subsequent to 30 April 2014.

**C. DIRECTORS' REMUNERATION**

Under the arrangements presently in force, the aggregate remuneration of Huachun's directors for the year ending 31 December 2014 paid or payable by Huachun is expected to be approximately RMB97,000.

**D. EVENTS AFTER THE REPORTING PERIOD**

On 30 September 2014, the Shareholders of Huachun entered into a sale and purchase agreement with Jinyuan Textile Co., Ltd. (the “Jiangxi Jinyan”) to sell 100% equity interests of Huachun at a consideration of RMB200 million. This transaction has not been completed at the date of this report.

Yours faithfully,

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

**(II) MANAGEMENT DISCUSSION AND ANALYSIS ON HUACHUN FOR THE THREE YEARS ENDED 31 DECEMBER 2011, 2012 AND 2013 AND FOR THE FOUR MONTHS ENDED 30 APRIL 2014**

Set out below is the management discussion and analysis on Huachun, which is based on the financial information of Huachun as set out in Appendix II to this circular.

**Business Review**

Huachun was established in the PRC on 30 April 2010 with limited liability. The principal place of business of Huachun is at Fengxin Industrial Park, Yichun City, Jiangxi Province, the PRC.

Huachun is engaged in the business of manufacturing and trading of polyester yarns, grey and deep grey melange yarns in the PRC. As at the Latest Practicable Date, Huachun has approximately 12 types of yarn products with different count size and color which cater for different customers' needs.

**Revenue and gross profits**

Revenue and gross profits of Huachun for the three years ended 31 December 2011, 2012, 2013 and for the four months ended 30 April 2014 were as follows:

|  | Year ended 31 December |                |                | Four months ended |
|--|------------------------|----------------|----------------|-------------------|
|  | 2011                   | 2012           | 2013           | 30 April 2014     |
| Revenue                                      |                        |                |                |                   |
| Sale of polyester yarns                      | 178,282                | 338,889        | 424,700        | 101,743           |
| Sales of grey and deep grey<br>mélange yarns | –                      | –              | 108,557        | 91,163            |
|  | <u>178,282</u>         | <u>338,889</u> | <u>533,257</u> | <u>192,906</u>    |
| Gross Profit                                 | <u>8,028</u>           | <u>13,715</u>  | <u>55,841</u>  | <u>22,399</u>     |
| Gross profit margin                          | <u>4.5%</u>            | <u>4.0%</u>    | <u>10.5%</u>   | <u>11.6%</u>      |

The increase in revenue from 2011 to 2013 was mainly due to increase in sales volume as a result of increased production capacities. The total production capacity of Huachun has been increased significantly from approximately 100,000 spindles designated for polyester yarns in 2011 to approximately 250,000 spindles in 2013 as Huachun progressively increased an additional 50,000 spindles designated for polyester yarns in 2012 and an additional 100,000 spindles designated for grey and deep grey mélange yarns. Huachun increased its production capacities in order to diversify its product portfolio as part of its expansion strategy.

Huachun generally arranges its production and sales under a make-to-stock strategy and does not have any long term sales contracts with its customers. Huachun sells its products from its inventory when orders are received and any outstanding orders at Huachun at any point in time are not material. As at 30 April 2014, there were no material outstanding orders at Huachun.

Since 2013, Huachun has been engaged in the manufacture and sales of grey and deep mélange yarn products. Initially, Huachun acted as processing agent for its customers and generated processing income of approximately RMB1.6 million for the year ended 31 December 2013. Huachun started selling its own branded grey and deep grey mélange polyester yarn products in mid-2013 which generated revenue of approximately RMB108.6 million and RMB91.2 million for the year ended 31 December 2013 and the fourth months ended 30 April 2014, respectively. As the production capacity for grey and deep grey mélange polyester yarn products, which accounts for approximately 40% of the current total production capacity of Huachun, has been generally utilized in full so far in 2014 and there is no significant change in the demand for such product in the market, the Company expects that the sales of grey and deep grey mélange polyester yarn products by Huachun, as a percentage of total revenue of Huachun, for the full year of 2014 will resemble that of the production capacities.

The increase in gross profit margin from 2012 to 2013 was mainly due to the introduction of new product, grey and deep grey mélange yarns, which yield better margin than polyester yarns. The increase in gross profit margin from 2013 to 2014 was mainly due to the increase in the proportion of sales attributable to grey and deep grey mélange yarns.

#### **Other income**

Other income for the three years ended 31 December 2011, 2012 and 2013 and for the period ended 30 April 2014 were approximately RMB2.2 million, RMB4.1 million, RMB6.2 million and RMB2.9 million, respectively. Other income was mainly government grants which were discretionary in nature.

#### **Distribution and selling expenses**

Distribution and selling expenses of Huachun for the three years ended 31 December 2011, 2012 and 2013 and for the four months ended 30 April 2014 were approximately RMB2.6 million, RMB6.2 million, RMB8.3 million and RMB4.0 million, respectively. The increase in distribution and selling expenses from 2011 to 2013 was mainly attributable to the increase in transportation expense in respect of goods delivered to customers resulting from the increase in sales volume.

#### **Administrative and other expenses**

Administrative and other expenses of Huachun for the three years ended 31 December 2011, 2012 and 2013 and for the period ended 30 April 2014 were approximately RMB6.1 million, RMB10.5 million, RMB14.9 million and RMB5.8 million, respectively. The increase of which from 2011 to 2013 was mainly due to increase in depreciation and related taxes in respect of administrative building and related structures and increase in staff costs

**Finance Costs**

Finance costs of Huachun for the three years ended 31 December 2011, 2012 and 2013 and for the period ended 30 April 2014 were approximately RMB4.2 million, RMB13.4 million, RMB22.5 million and RMB11.9 million, respectively. The increase in finance costs from 2011 to 2013 was mainly due to increase in bank and other borrowings of Huachun.

**Liquidity and Financial Resources**

Huachun generally finances its operations with cash flows generated internally and from its operating activities and borrowings. As at 31 December 2011, 2012 and 2013 and 30 April 2014, Huachun had net current liabilities of approximately RMB224.5 million, RMB265.6 million, RMB150.3 million and RMB195.8 million, respectively.

As at 31 December 2011, 2012 and 2013 and 30 April 2014, cash and bank balances of the Huachun was approximately RMB1.7 million, RMB10.7 million, RMB12.8 million and RMB17.8 million respectively. As at 31 December 2011, 2012 and 2013 and 30 April 2014, the pledged bank deposits of Huachun were approximately RMB2.2 million, RMB29.9 million, RMB34.4 million and RMB49.4 million respectively. Huachun's cash and bank balance and pledged bank deposits were held in RMB.

Cash generated from operations for the four months ended 30 April 2014 was approximately RMB77.4 million which is approximately 43.9% more than the cash generated from operations for the year ended 31 December 2013. As at the Latest Practicable Date, most of the banks which granted facilities to Huachun, with the exception of one bank from which Huachun has not yet received the facility rollover confirmation, agreed to renew bank borrowings amounting to RMB162 million currently included in short term bank borrowings as at 31 August 2014 and Huachun has unutilized banking facilities of RMB100 million. Huachun had an amount due from a third party of approximately RMB63.7 million as at 30 April 2014, of which approximately RMB39.7 million had been settled up to 31 August 2014 and the remaining balance of approximately RMB24 million will be settled before the completion of the Acquisition. The settlement of the amount would further enhance the liquidity of Huachun. Taking into account the availability of the banking facilities and Huachun's expected cash flows generated from operations, Huachun is expected to have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future.

Subsequent to completion of the Acquisition, Huachun will become a member of the Enlarged Group which the Directors consider such status would give Huachun better access to capital markets. The Company is also considering fund raising activities, after which Huachun will have access to those funds.

**Capital Structure**

As at 31 December 2011, 2012 and 2013 and 30 April 2014, Huachun's interest bearing bank borrowings was approximately RMB94.8 million, RMB221.0 million, RMB237.0 million and RMB202 million, respectively. As at 30 April 2014, 100% of the bank borrowings was repayable within one year, of which RMB5.0 million was fixed interest rate borrowings. The banking facilities of Huachun were secured by its land use right, properties, plant and equipment and pledged bank deposits with carrying values of RMB185.6 million, RMB261.4 million, RMB310.9 million and RMB322.9 million as at 31 December 2011, 2012 and 2013 and 30 April 2014, respectively. All bank borrowings were denominated in RMB.

As at 31 December 2012 and 2013 and 30 April 2014, Huachun's obligations under finance leases was approximately RMB53.9 million, RMB33.1 million and RMB27.0 million, respectively. As at 30 April 2014, 75.5% of the obligations under finance leases was repayable within one year. RMB4.1 million was held as a secured deposit for Huachun's obligations under finance leases. All obligations under finance lease were denominated in RMB.

As at 31 December 2013 and 30 April 2014, Huachun's bond payable was approximately RMB196.3 million and RMB198.3 million, respectively. As at 30 April 2014, 100 % of the bond payable was fixed rate and repayable between 2 to 5 years. The bond payable of Huachun were secured by its land use right, properties and plant and equipment with carrying values of RMB65.1 million and RMB63.6 million as at 31 December 2013 and 30 April 2014 respectively. The bond payable was denominated in RMB.

### **Gearing ratio**

The Gearing ratio of Huachun, which is equal to the total of bank borrowings, bills payable, obligations under finance leases and bond payable to total assets as at 31 December 2011, 2012 and 2013 and 30 April 2014 was approximately 25.4%, 60.7%, 68.6% and 70.1%, respectively

### **Foreign Currency Risks**

The businesses conducted of Huachun during the three year ended 31 December 2011, 2012 and 2013 and the four months ended 30 April 2014 were denominated in RMB. As at 31 December 2011, 2012 and 2013 and 30 April 2014, all of the bank borrowings of and all of the cash and bank balances of Huachun were made in RMB. Therefore, the exposure in currency risks of Huachun was considered by the management to be minimal and it had not used any financial instrument for hedging purposes during the aforesaid period.

### **Capital Commitment**

As at 31 December 2011, 2012 and 2013 and 30 April 2014, capital expenditure in respect of acquisition of property, plant and equipment was approximately RMB494.1 million, RMB174.4 million, RMB10.4 million and RMB3.7 million, respectively.

Huachun was designed to have a maximum capacity of 300,000 spindles spreading over six workshops with 50,000 spindles in each workshop, subsequent to the completion of the addition of the last 50,000 spindles in workshop number six of Huachun in the second quarter of 2014, it has reached its maximum designed capacity and does not expect to incur any substantial capital expenditure in the coming twelve months.

### **Charge of Assets**

As at 31 December 2011, 2012 and 2013 and 30 April 2014, the carrying values of property, plant and equipment, prepaid lease payments, pledged bank deposits and secured deposits for obligations under finance leases pledged to secure general banking facilities and other borrowings of Huachun was approximately RMB185.6 million, RMB257.4 million, RMB306.8 million and RMB318.8 million, respectively.



**Contingent Liabilities**

As at 31 December 2012, 2013 and 30 April 2014, guarantee was given to banks in respect of banking facilities to third parties. The amount that could be required to be paid by Huachun if the guarantee was called upon in entirety was approximately RMB30 million, RMB51.0 million and RMB31.0 million, as at 31 December 2012, 2013 and 30 April 2014, respectively. Such guarantees were given as reciprocal provision of corporate guarantee by the relevant third party for the banking facilities of Huachun. All such guarantees provided by Huachun expired on 15 July 2014. Neither the Company nor Huachun intends to give any such guarantee to any third parties in future. Going forward, banking facilities of Huachun are expected to be guaranteed by Jiangxi Jinyuan.

**Material Investments, Acquisitions or Disposals**

Huachun had not acquired or disposed of any subsidiary or affiliated company during the three years ended 31 December 2011, 2012 and 2013 and the period ended 30 April 2014 and it did not have any significant investments held or plan for material investments or capital assets.

**Employees and Remuneration Policy**

As at 31 December 2011, 2012, 2013 and 30 April 2014, Huachun had a total of 480, 1,121, 1,291 and 1,315 employees, respectively. Remuneration for employees were maintained at a competitive level and determined with reference to the general market condition and qualifications and experience of the employees concerned. Employees' salaries and bonus for the years ended 31 December 2011, 2012 and 2013 and the four months ended 30 April 2014 were approximately RMB1.42 million, RMB1.85 million, RMB1.82 million and RMB0.53 million, respectively. Remuneration packages comprised salaries and defined contribution pension fund. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. On the job training is provided to employees at the factory site. Huachun has no share option scheme.

**(1) INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the unaudited pro forma consolidated statement of financial position of the Enlarged Group (“**Unaudited Pro Forma Financial Information**”), being the Company and its subsidiaries (collectively, the “**Group**”) together with Jiangxi Huachun Color Spinning Technology Development Co., Ltd (江西華春色紡科技發展有限公司) (“**Huachun**”), as if the proposed acquisition of the entire equity interest Huachun by the Group (the “**Transaction**”) had been completed on 30 June 2014. Details of the Transaction are set out in the section headed “Letter from the Board” contained in this Circular.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), for the purpose of illustrating the effect of the Transaction pursuant to the terms of the sale and purchase agreement dated 30 September 2014 (the “**SPA**”) entered into among the Company and all shareholders of Huachun (the “**Vendor**”). The completion of the Transaction is conditional upon, amongst other conditions as follows:

- (i) the results of business, technical, financial, legal, and other due diligence pertaining to Huachun shall be satisfactory to the Group;
- (ii) consents, licenses, registrations, or declarations of, or filings with, any competent authority required to be obtained or made prior to closing under applicable laws shall have been obtained or made on a basis reasonably satisfactory to the Group;
- (iii) the representations and warranties of the Vendors set out in the SPA continuing to be true, accurate and correct in all material respects as of the date of closing;
- (iv) the Transaction having been approved by the Shareholders in accordance with applicable requirements under the Listing Rules;
- (v) the Group having obtained all necessary consents and approvals in relation to the SPA and the transactions contemplated thereunder, as under its articles of association, applicable law and the Listing Rules.

The Unaudited Pro Forma Financial Information is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2014, which has been extracted from the Company’s published interim financial report for the six months ended 30 June 2014 and the audited statement of financial position of Huachun as at 30 April 2014 as extracted from the accountants’ report of Huachun thereon set out in Appendix II to this Circular, and after making pro forma adjustments relating to the Transaction that are (i) directly attributable to the Transaction, and (ii) factually supportable, as if the Transaction had been completed on 30 June 2014.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared by the directors of the Company to provide information of the Group upon completion of the Transaction. It is prepared for illustrative purpose only and based on a number of assumptions, estimates and uncertainties. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group at 30 June 2014 following the completion of the Transaction or any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the interim financial report of the Company for the six months ended 30 June 2014 and other financial information included elsewhere in this Circular.

## (2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF NET ASSETS

|  | The Group<br>as at<br>30/6/2014<br>RMB'000 | Pro forma<br>adjustment<br>RMB'000<br>(Note a) | Pro forma<br>adjustment<br>RMB'000<br>(Note b) | Pro forma<br>adjustment<br>RMB'000<br>(Note c) | Pro forma<br>adjustment<br>RMB'000<br>(Note d) | Pro forma<br>Enlarged<br>Group<br>RMB'000 |
|--|--|--|--|--|--|---|
| <b>Non-current assets:</b>                                       |  |  |  |  |  |   |
| Long term receivables  |  |  | 4,090  |  |  | 4,090                                     |
| Investment in a subsidiary                                       |  | 200,000  |  | (200,000)                                      |  |   |
| Goodwill   |  |  |  | 30,183   |  | 30,183                                    |
| Property, plant and equipment                                    | 585,953                                    |  | 494,893  | 73,569   |  | 1,154,415                                 |
| Prepaid lease payments   | 34,510                                     |  | 12,435   |  |  | 46,945                                    |
| Intangible assets  | –  |  | 198  |  |  | 198                                       |
| Deposit paid for acquisition of<br>property, plant and equipment | 862  |  | 352  |  |  | 1,214                                     |
| Deferred tax asset   | –  | –  | 2,900  | –  | –  | 2,900                                     |
|  | 621,325                                    | 200,000  | 514,868  | (96,248)                                       | –  | 1,239,945                                 |
| <b>Current assets:</b>   |  |  |  |  |  |   |
| Inventories  | 101,818                                    |  | 36,191   |  |  | 138,009                                   |
| Trade and other receivables                                      | 16,180                                     |  | 9,319  |  |  | 25,499                                    |
| Tax recoverable  | –  |  | 9,243  |  |  | 9,243                                     |
| Bills receivables  | 15,009                                     |  | 12,244   |  |  | 27,253                                    |
| Amount due from<br>江西寶源彩紡有限公司                                    | –  |  | 63,700   |  |  | 63,700                                    |
| Prepaid lease payments   | 776  |  | 289  |  |  | 1,065                                     |
| Pledged bank deposit   | 19,268                                     |  | 49,350   |  |  | 68,618                                    |
| Cash and bank balances   | 61,678                                     | (61,678)                                       | 17,790   |  |  | 17,790                                    |
|  | 214,729                                    | (61,678)                                       | 198,126  | –  | –  | 351,177                                   |

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL  
INFORMATION OF THE ENLARGED GROUP**

|                                       | <b>The Group</b>      |                   |                       |                       |                       | <b>Pro forma</b>      |
|---------------------------------------|-----------------------|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                       | <b>as at</b>          | <b>Pro forma</b>  | <b>Pro forma</b>      | <b>Pro forma</b>      | <b>Pro forma</b>      | <b>Enlarged</b>       |
|                                       | <b>30/6/2014</b>      | <b>adjustment</b> | <b>adjustment</b>     | <b>adjustment</b>     | <b>adjustment</b>     | <b>Group</b>          |
|                                       | <i>RMB'000</i>        | <i>RMB'000</i>    | <i>RMB'000</i>        | <i>RMB'000</i>        | <i>RMB'000</i>        | <i>RMB'000</i>        |
|                                       |                       | <i>(Note a)</i>   | <i>(Note b)</i>       | <i>(Note c)</i>       | <i>(Note d)</i>       |                       |
| <b>Current liabilities:</b>           |                       |                   |                       |                       |                       |                       |
| Trade and other payables              | (109,188)             | (18,322)          | (98,327)              |                       | (1,448)               | (227,285)             |
| Bills payables                        | (26,282)              |                   | (72,900)              |                       |                       | (99,182)              |
| Obligation under finance lease        |                       |                   |                       |                       |                       |                       |
| – current portion                     |                       |                   | (20,394)              |                       |                       | (20,394)              |
| Tax payable                           | (5,407)               |                   | –                     |                       |                       | (5,407)               |
| Financial Guarantee Liabilities       |                       |                   | (257)                 |                       |                       | (257)                 |
| Bank borrowings                       | (263,573)             |                   | (202,000)             |                       |                       | (465,573)             |
|                                       | <u>(404,450)</u>      | <u>18,322</u>     | <u>(393,878)</u>      | <u>–</u>              | <u>(1,448)</u>        | <u>(818,098)</u>      |
| Net current assets/(liabilities)      | <u>(189,721)</u>      | <u>(80,000)</u>   | <u>(195,752)</u>      | <u>–</u>              | <u>(1,448)</u>        | <u>(466,921)</u>      |
| Total assets less current liabilities | <u>431,604</u>        | <u>120,000</u>    | <u>319,116</u>        | <u>(96,248)</u>       | <u>(1,448)</u>        | <u>773,024</u>        |
| <b>Non-current liabilities:</b>       |                       |                   |                       |                       |                       |                       |
| Deferred income                       | (6,190)               |                   |                       |                       |                       | (6,190)               |
| Obligation under finance lease        |                       |                   |                       |                       |                       |                       |
| – non current portion                 |                       |                   | (6,606)               |                       |                       | (6,606)               |
| Bank and other borrowings             | (15,000)              | (120,000)         |                       |                       |                       | (135,000)             |
| Bonds payable                         |                       |                   | (198,264)             |                       |                       | (198,264)             |
| Deferred tax liability                | (5,081)               |                   |                       | (17,998)              |                       | (23,079)              |
|                                       | <u>(26,271)</u>       | <u>(120,000)</u>  | <u>(204,870)</u>      | <u>(17,998)</u>       | <u>–</u>              | <u>(369,139)</u>      |
| <b>Net assets</b>                     | <u><u>405,333</u></u> | <u><u>–</u></u>   | <u><u>114,246</u></u> | <u><u>114,246</u></u> | <u><u>(1,448)</u></u> | <u><u>403,885</u></u> |

## (3) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

- a. According to the acquisition agreement, Jinyuan Textile Co., Ltd. Jiangxi (“**Jiangxi Jinyuan**”), a subsidiary of the Company has conditionally agreed to acquire all equity interest in Jiangxi Huachun Color Spinning Technology Development Co., Ltd (江西華春色紡科技發展有限公司) (“**Huachun**”) for a total consideration of RMB200 million. Pursuant to the SPA, RMB80 million will be settled in cash upon completion of acquisition while RMB120 million is payable on the third anniversary of the date of completion of acquisition and the Vendor, representing all shareholders of Huachun, will entitle to semi-annual interest payments at a simple annualized interest rate of 8% per annum (“**Loan from Vendor**”).

For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that the Group has utilised its entire cash and bank balances amounting to RMB61,678,000 for settlement of consideration as if the Transaction had taken place at 30 June 2014. The outstanding consideration (other than the Loan from Vendor amounting to RMB120,000,000) of RMB18,322,000 is recognised as payable to Vendor at 30 June 2014.

- b. The adjustment represents the consolidation of assets and liabilities of Huachun as at 30 April 2014, assuming the Transaction had taken place on 30 June 2014 and there is no change in the assets and liabilities of Huachun from 30 April 2014 to 30 June 2014. The assets and liabilities of Huachun as at 30 April 2014 are extracted from the accountants’ report of Huachun set out in Appendix II to this circular.
- c. The acquisition of Huachun is accounted for using the acquisition method of accounting in accordance with Hong Kong Financial Reporting Standard 3 (Revised) “Business Combinations” (“HKFRS 3 (Revised)”) issued by the Hong Kong Institute of Certified Public Accountants. The excess of fair value of consideration over the fair value of the identifiable assets and liabilities of Huachun is accounted for as goodwill as below.

|  |                |
|--|----------------|
|  | <i>RMB’000</i> |
| Pro forma fair value of consideration ( <i>note a</i> )        | 200,000        |
| Less: Pro forma fair value of identifiable net assets acquired | (169,817)      |
|  | <hr/>          |
| Pro forma Goodwill   | <u>30,183</u>  |

For the purpose of impairment testing, goodwill has been allocated to an individual cash generating unit, Huachun. The recoverable amount of this unit has been determined based on value in use calculation. That calculation uses cash flow projections based on a five-year period financial budget approved by senior management and discount rate of 9.2% for the purpose in this Pro forma. Huachun’s cash flows beyond the five-year period are extrapolated with zero growth rate. Other key assumptions for the value in use calculations relate to the budgeted sales and gross margin, which is determined based on the unit’s past performance and management’s expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Huachun to exceed the aggregate recoverable amount of Huachun. Since the recoverable amount of the cash generating unit is higher than its carrying amount, the directors of the Group consider that the goodwill is not impaired.

The pro forma fair value of identifiable net assets of Huachun is determined by assuming that the pro forma fair value of net identifiable assets (other than Huachun's leasehold land and buildings with carrying amount of RMB268,231,000 which are situated in Fengtian Development Zone, Fengxin County Yichun City, Jiangxi Province, The PRC, referred to as the "**Properties**") are the same as the carrying amount at 30 June 2014. The pro forma fair value of Properties is based on directors' estimation with reference to a valuation report issued by Roma Appraisals Limited, an independent valuer amounting to approximately RMB341,800,000 at 31 August 2014, resulting in a fair value adjustment on buildings element of Properties amounting to RMB73,569,000 and nil fair value adjustment on leasehold land of the Properties. There are no significant movement on the carrying amount of the properties from 30 June 2014 to 31 August 2014. The identifiable assets and liabilities, including the Properties, of Huachun will be recognised at fair value upon acquisition by Jiangxi Jinyuan in the Group's consolidated financial statements for the year ending 31 December 2014 by purchase method. Subsequent to the acquisition, depreciation is recognised so as to write off the fair value of the properties less their residual values over their estimated useful lives, using the straight-line method.

In addition, corresponding deferred tax amounted to approximately RMB17,998,000 due to fair value adjustment on properties, estimated using the statutory tax rate of Huachun of 25% and a preferential tax rate of 15% for a period of three years in 2013, 2014 and 2015 as Huachun has been recognized as a state-encouraged high-new technology enterprise.

The purchase price allocation and the fair values of the identifiable assets and liabilities (including but not limited to Properties of Huachun are subject to change upon the finalisation of the valuation for the completion date of the Transaction (the "**Final Valuation**"), which may be substantially different from their estimated amounts used in the preparation of this Unaudited Pro Forma Financial Information.

Since the estimated amounts of the identifiable assets and liabilities used in the preparation of this Unaudited Pro Forma Financial Information may be substantially different from their fair values on the completion date, the amount of goodwill to be recognised in connection with the Transaction on completion date could be materially different from the estimated amounts stated herein. Should the fair value of the consideration is greater than the aggregate fair value of the identifiable assets and liabilities of Huachun upon finalisation of the Final Valuation, additional goodwill will be resulted and subject to impairment assessment in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" issued by the HKICPA.

In addition, pro forma adjustments is made for the elimination of the interest in a subsidiary amounting to RMB200,000,000.

- d. The adjustment represents accrual for estimated acquisition-related costs of approximately HK\$1,448,000 which would be expensed in profit or loss upon completion of the Transaction.

(4) INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE  
COMPILATION OF PRO FORMA FINANCIAL INFORMATION



TO THE DIRECTORS OF CHINA WEAVING MATERIALS HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Weaving Materials Holdings Limited (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) by the directors of the Company (the “**Directors**”) for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 30 June 2014 and related notes (the “**Pro Forma Financial Information**”) as set out in Appendix III of the circular issued by the Company dated 27 October 2014 (the “**Circular**”). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are set out in Appendix III of the Circular.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of Jiangxi Huachun Color Spinning Technology Development Co., Ltd (the “**Transaction**”) on the Group’s financial position as at 30 June 2014 as if the Transaction had taken place on 30 June 2014. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s condensed financial statements for the six months ended 30 June 2014, on which a review report has been published.

**Directors’ Responsibilities for the Pro Forma Financial Information**

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“**AG 7**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

**Reporting Accountant’s Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountant complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2014 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
27 October 2014

*The following is the text of a report prepared for the purpose of incorporation in this circular received from Roma Appraisals Limited, an independent valuer, in connection with its valuation as at 31 August 2014 of the property.*



Unit 3806, 38/F, China Resources Building,  
26 Harbour Road, Wan Chai, Hong Kong  
Tel (852) 2529 6878 Fax (852) 2529 6806  
E-mail [info@romagroup.com](mailto:info@romagroup.com)  
<http://www.romagroup.com>

27 October 2014

**China Weaving Materials Holdings Limited**

Unit 806,  
8/F, AXA Centre,  
151 Gloucester Road,  
Wan Chai, Hong Kong

Dear Sir/Madam,

Re: An Industrial Complex situated in Ningbo Avenue, Fengtian Development Zone (Lot nos. A0378, A0584 and A0617), Fengxin County, Yichun City, Jiangxi Province, the People's Republic of China

In accordance with your instruction for us to value the property intended to acquire by China Weaving Materials Holdings Limited (the "Company") and/or its subsidiaries (together with the Company referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 31 August 2014 (the "Date of Valuation") for the purpose of incorporation in the circular of the Company dated 27 October 2014.

**1. BASIS OF VALUATION**

Our valuation of the property is our opinion of the market value of the concerned property which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

## **2. VALUATION METHODOLOGY**

Due to the specific purpose for which the buildings and structures of the property have been constructed, there are no readily identifiable market comparables. Thus the buildings and structures have been valued on the basis of their depreciated replacement costs instead of direct comparison method. The depreciated replacement cost approach (“DRC”) is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In practice, DRC approach may be used as a substitute for the market value of specialized property, due to the lack of market comparables available. Our valuation does not necessarily represent the amount that might be realized from the disposition of the property and the DRC is subject to adequate profitability of the concerned business.

## **3. TITLE INVESTIGATION**

For the property in the PRC, We have been provided with copies of extracts of title documents relating to the property in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group’s PRC legal advisor, Zhong Yin Law Firm (中銀律師事務所) regarding the title to the property in the PRC. All documents have been used for reference only.

In valuing the property, we have relied on the advice given by the Group and its PRC legal advisor that the Group has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

## **4. VALUATION ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of such property.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no allowance has been made for the property to be sold in one lot or to a single purchaser.

**5. SOURCE OF INFORMATION**

In the course of our valuation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, particulars of occupation, site/floor areas, ages of buildings and all other relevant matters which can affect the value of the property. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

**6. VALUATION CONSIDERATION**

We have inspected the exterior and, where possible, the interior of certain property. No structural survey has been made in respect of the property. However, in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site/floor areas of the property under consideration but we have assumed that the site/floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation are prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors; the RICS Valuation – Professional Standards published by the Royal Institution of Chartered Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

**REMARKS**

Unless otherwise stated, all monetary amounts stated in our valuation are in Renminbi (“RMB”).

Our Valuation Certificate is attached.

Yours faithfully,  
For and on behalf of  
Roma Appraisals Limited

**Dr. Alan W K Lee**

*BCom (Property) MFin PhD (BA)*  
*MHKIS RPS (GP) AAPI CPV CPV (Business)*  
*Associate Director*

**Frank F Wong**

*BA (Business Admin) MSc (Real Estate)*  
*MRICS Registered Valuer*  
*Associate Director*

*Note:* Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 10 years’ valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

*Note:* Mr. Frank F Wong is a Chartered Surveyor and Registered Valuer who has 15 years’ experience in property valuation, tangible asset valuation, transaction advisory and project consultancy in Hong Kong and 7 years’ experience in valuation of properties in the PRC as well as relevant experience in the Asia-Pacific region, Japan, Papua New Guinea, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE) and Jordan.

## VALUATION CERTIFICATE

## Property intended to be acquired by the Group in the PRC

| Property  | Description and Tenure  | Particulars of Occupancy   | Market Value<br>in Existing<br>State as at<br>31 August 2014<br>RMB |
|---|---|--|---|
| <p>An industrial complex situated in Ningbo Avenue, Fengtian Development Zone (Lot nos. A0378, A0584 and A0617), Fengxin County, Yichun City, Jiangxi Province, The PRC</p> <p>中國江西省宜春市奉新縣馮田開發區寧波大道之一個工業區 (地號A0378、A0584及A0617)</p> | <p>The property comprises 6 parcels of land with a total site area of about 192,092.17 sq.m. which various buildings, completed in various stages between 2011 and 2013, were erected thereon.</p> <p>The buildings have a total gross floor area of approximately 199,845.44 sq.m.</p> <p>The buildings mainly include 7 industrial buildings with bridge-corridors, 5 dormitory buildings, an office building, 2 warehouse buildings and a canteen with relevant building certificates.</p> <p>The structures mainly include boundary fences, roads, pounds and gates.</p> <p>The land use rights of the property have been granted for various terms with expiry date between 11 April 2056 and 28 June 2061 for industrial use.</p> | <p>The property is operated for productions, warehouses, staff quarters and ancillary office uses.</p> | <p>RMB341,800,000.</p>  |

## Notes:

- Pursuant to 6 State-owned Land Certificates, Feng Guo Yong (2010) (奉國用(2010)第) Nos.A1050378-1, A1050378-2, A1050584-1, A1050584-2, A1050617-1 and A1050617-2 issued by Fengxin County People's Government (奉新縣人民政府), the land use rights of the property with a total site area of 192,092.17 sq.m. have been granted to Jiangxi Huachun Color Spinning Technology Development Co., Ltd. (江西華春色紡科技發展有限公司) ("Jiangxi Huachun") for various terms with expiry date between 11 April 2056 and 28 June 2061 for industrial use.
- Pursuant to 11 Building Ownership Certificates, Feng Fang Quan Feng Xin Zi (奉房權證奉新字第) Nos. 20110232, 20111063, 20111064, 20112701, 20112702, 20112703, 20110233, 20112704, 20112705, 20120166 and 20120165 issued by Fengxin County Real Estate Management Bureau (奉新縣房地產管理局), various buildings and bridge-corridors of the property with a total gross floor area of approximately 199,845.44 sq.m. are legally held by Jiangxi Huachun for industrial, warehouse, staff quarters and ancillary office uses.

3. The status of the title and grant of major approvals and licenses in accordance with the information provided to us are as follows:

|  |     |
|--|-----|
| Stated-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate           | Yes |

4. Our inspection was performed by Mr. Frank F. Wong, in September 2014.
5. Pursuant to a Mortgage Contract of Maximum Amount – No. 201310100101880105, the land use rights of a parcel of land with an area of approximately 39,079.35 sq.m. under the State-owned Land Use Rights Certificate – Feng Guo Yong (2010) (奉國用(2010)第) No. A1050378-1, is subject to a mortgage in favour of Zhongrong International Trust Co., Limited (中融國際信託有限公司), as security to guarantee the principal obligation under a contracts for a maximum amount of RMB200,000,000 with the security term from 26 September 2013 to 26 September 2016.
6. Pursuant to a Mortgage Contract of Maximum Amount – No. 15082601-2013 Feng Xin (Di) Zi 0023 (15082601-2013奉新(抵)字0023號), the land use rights of a parcel of land with an area of approximately 52,349.08 sq.m. under the State-owned Land Use Rights Certificate – Feng Guo Yong (2010) (奉國用(2010)第) No. A1050378-2 and buildings with a total gross floor area of approximately 57,660.14 sq.m. under Building Ownership Certificates Feng Fang Quan Feng Xin Zi (奉房權證奉新字第) Nos. 2110233, 20111063, 20111064 and 20112703 are subject to a mortgage in favour of Fengxin Branch – Industrial and Commercial Bank of China Limited (中國工商銀行股份有限公司奉新支行), as security to guarantee the principal obligation under a contracts for a maximum amount of RMB50,000,000 with the security term from 8 November 2013 to 8 November 2016.
7. Pursuant to a Mortgage Contract of Maximum Amount – No. (2013) Hong Yin Zui Zi Di No. 270013 (洪銀最抵字第270013號), the land use rights of 2 parcels of land with a total area of approximately 68,176.74 sq.m. under the State-owned Land Use Rights Certificates – Feng Guo Yong (2010) (奉國用(2010)第) Nos. A1050584-1 and A1050584-2 and buildings with a total gross floor area of approximately 59927.64 sq.m. under Building Ownership Certificates Feng Fang Quan Feng Xin Zi (奉房權證奉新字第) Nos. 20112701, 20110232 and Feng Guo Yong (2010) (奉國用(2010)第) No. A1050584-1, A1050584-2 are subject to a mortgage in favour of Nanchang Branch – CITIC Bank Limited (中信銀行股份有限公司南昌分行), as security to guarantee the principal obligation under a contracts for a maximum amount of RMB54,000,000 with the security term from 27 November 2013 to 27 November 2014.
8. Pursuant to a Mortgage Contract of Maximum Amount – No. (2012) Feng Lian Gao Di Zi Di 397 ((2012)奉聯高抵字第397號), the land use rights of a parcel of land with an area of approximately 21,687 sq.m. under the State-owned Land Use Rights Certificate – Feng Guo Yong (2010) (奉國用(2010)第) No. 1050617-2 and 3 buildings with a total gross floor area of approximately 26,876.48 sq.m. under Building Ownership Certificate Feng Fang Quan Feng Xin Zi Di Nos. 20112704, 20120165, 20120166 (奉房權證奉新字第20122704號,第20120165號,第20120166號), are subject to a mortgage in favour of Fengxin County Rural Credit Cooperative Union (奉新縣農村信用合作聯社), as security to guarantee the principal obligation under a contracts for a maximum amount of RMB30,000,000 with the security term from 8 March 2012 to 7 March 2015.
9. Fengxin County is a prefecture-level city of Jiangxi province, the PRC, with an area of 1,642 sq.km. The population was 312,956 in 2010. The administrative center is Yichun City.
- As per our latest market research, the industrial land in the subject locality has a unit rate ranging from RMB55 per sq.m. to RMB65 per sq.m..
10. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:
- Jiangxi Huachun is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - All land premium and other costs of ancillary utility services has been settled in full; and
  - Expect for the aforesaid mortgage, the property is not subject to mortgage or any other material encumbrances.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' Interests in Shares, Underlying Shares and Debentures

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executives of the Company 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 (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they were taken or deemed to have under such provisions 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 to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”), are set out below:

#### *Long positions in ordinary shares of the Company*

| Name of Director    | Capacity/Nature of Interest          | Number of Shares                              | Approximate percentage of interest in the Company |
|---------------------|--------------------------------------|---|---|
| Mr. Zheng Hong      | Interest of a controlled corporation | 467,550,000 <sup>(1)</sup><br>(long position) | 46.18%  |
| Mr. Sze Irons, JP   | Interest of a controlled corporation | 122,850,000 <sup>(2)</sup><br>(long position) | 12.13%  |
| Mr. Zheng Yongxiang | Beneficial owner                     | 21,092,000<br>(long position)                 | 2.08%   |

#### *Notes:*

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



Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had or was deemed to have any interests and short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to 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 to be notified to the Company and the Stock Exchange, pursuant to the Model Code.

### Substantial Shareholders' Interests in Shares and Underlying Shares

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

| Name of Shareholder              | Capacity/Nature of Interest          | Number of Shares                      | Approximate percentage of interest in the Company |
|----------------------------------|--------------------------------------|---------------------------------------|---|
| Popular Trend <sup>(1)</sup>     | Beneficial owner                     | 467,550,000 Shares<br>(long position) | 46.18%  |
| Flourish Talent <sup>(2)</sup>   | Beneficial owner                     | 122,850,000 Shares<br>(long position) | 12.13%  |
| Da Yu Investments <sup>(3)</sup> | Beneficial owner                     | 61,425,000 Shares<br>(long position)  | 6.07%   |
| Ms. Xie Meijing <sup>(3)</sup>   | Interest of a controlled corporation | 61,425,000 Shares<br>(long position)  | 6.07%   |

*Notes:*

- (1) Popular Trend is wholly-owned by Mr. Zheng Hong.
- (2) Flourish Talent is wholly-owned by Mr. Sze Irons, JP.
- (3) Da Yu Investments Limited ("Da Yu Investments") is wholly-owned by Ms. Xie Meijing ("Ms. Xie"). For the purpose of Part XV of the SFO, Ms. Xie is deemed to be interested in the Shares held by Da Yu Investments.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person or corporation 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.

### 3. FURTHER INFORMATION CONCERNING DIRECTORS

#### (a) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had entered, or was proposing to enter, into any service contract with any member of the Group (excluding contracts expiring or determinable by such member of the Group within one year without payment of compensation other than statutory compensation).

#### (b) Directors' interest in competing business

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors or any of their respective associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

#### (c) Directors' interest in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of or leased to any member of the Enlarged Group or proposed to be so acquired, disposed of or leased since 31 December 2013, the date to which the latest audited financial statements of the Company were made up.

#### (d) Directors' interest in contracts

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Enlarged Group.

### 4. MATERIAL CONTRACTS

The following contract(s) (not being contracts in the ordinary course of business) were entered into by the Group within the two years preceding the Latest Practicable Date and are or may be material:

- (a) the small and medium-sized enterprises private bonds subscription agreement dated 18 September 2013 (《江西華春色紡科技發展有限公司2013年中小企業私募債券認購協議》) entered into between Huachun and Zhong Rong International Trust Co., Ltd.\* (中融國際信託有限公司) in relation to the subscription of private bonds issued by Huachun with a principal amount of RMB200 million at a coupon rate of 7.8% and a maturity of 3 years; and
- (b) the Acquisition Agreement.

### 5. MATERIAL ADVERSE CHANGE

Save as the significant drop in the earnings of the Company as disclosed in the interim report of the Company for the six months ended 30 June 2014, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading prospects of the Company since 31 December 2013, the date to which the latest audited financial statements of the Company were made up.

**6. EXPERTS AND CONSENTS**

The following is the qualification of the expert or professional adviser who has given opinion or advice contained in this circular:

| <b>Name</b>              | <b>Qualification</b>            |
|--------------------------|---------------------------------|
| Deloitte Touche Tohmatsu | Certified Public Accountants    |
| Roma Appraisals Limited  | Independent Professional Valuer |

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu and Roma Appraisals Limited did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of Deloitte Touche Tohmatsu and Roma Appraisals Limited was not interested, directly or indirectly, in any assets which have been or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013 the date to which the latest audited financial statements of the Company were made up.

**7. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against the Company or any member of the Group.

**8. GENERAL**

- (a) The registered office of the Company is at Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is Unit 806, 8/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong.
- (c) The Company's share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Cheung Chi Fai Frank who is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accounts.

- (e) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese text for the purpose of interpretation.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong at Unit 806, 8/F, AXA Centre, 151 Gloucester Road, Wanchai, Hong Kong from the date of this circular up to 14 November 2014:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (c) the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013;
- (d) the interim report of the Company for the six months ended 30 June 2014;
- (e) the accountants' report of Huachun for the years ended 31 December 2011, 2012 and 2013 and the four months ended 30 April 2014, the text of which is set out in Appendix II of this circular;
- (f) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III of this circular;
- (g) the valuation report of Huachun, the text of which is set out in Appendix IV of this circular;
- (h) the written consents referred to under the section headed "Experts and Consents" in this Appendix; and
- (i) this circular.