CHINA HONGCHENG HOLDINGS LIMITED
中國宏誠控股有限公司

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China Hongcheng Holdings Limited

Annual Report 2015

STYLE & COMFORT

ANNUAL REPORT 2015

CHINA HONGCHENG HOLDINGS LIMITED
中國宏誠控股有限公司

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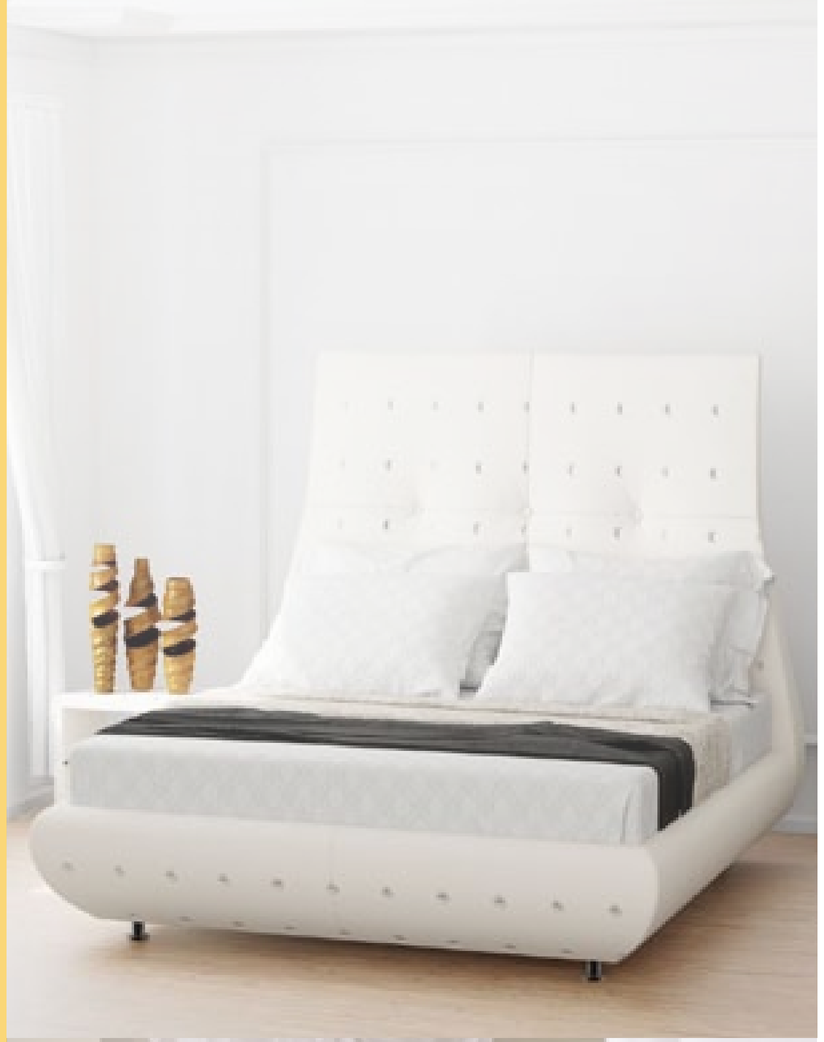
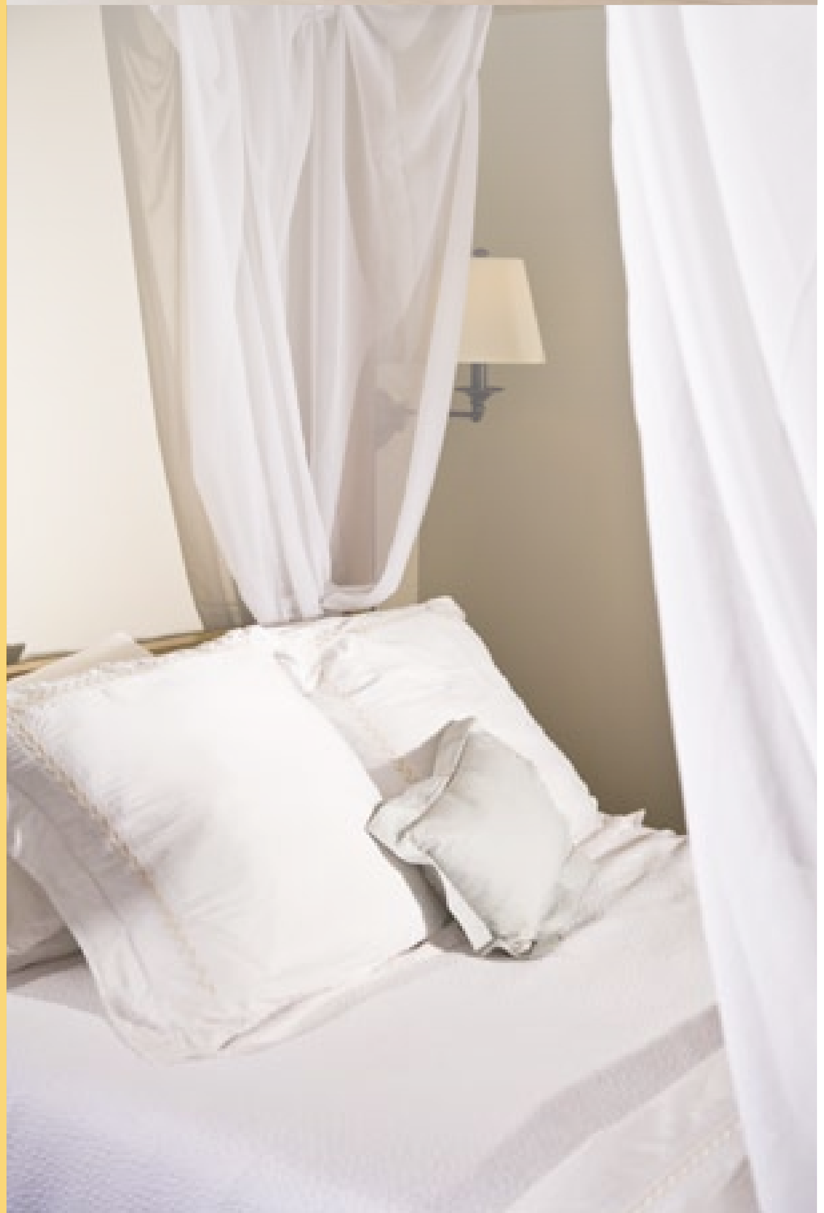




Corporate Profile

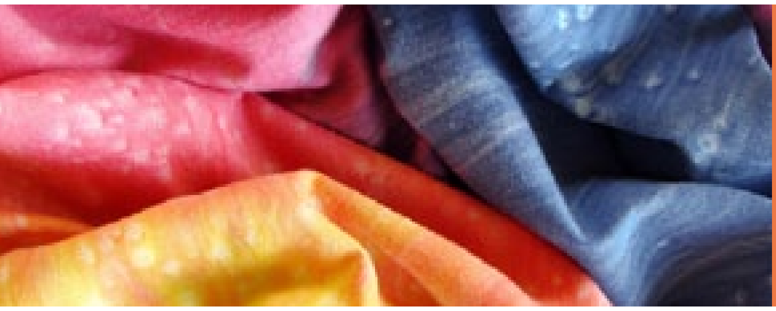
Starting out in 1977 as a manufacturer of cotton yarn and grey fabrics, China Hongcheng Holdings Limited ("China Hongcheng" or the "Group") has developed over the years into a niche and vertically integrated home textile products manufacturer in the People's Republic of China ("PRC") offering comprehensive and diversified products including cotton yarn, grey and dyed cotton fabrics, jacquard cotton fabrics and bed linen sets. It is a specialist in jacquard cotton fabrics development and manufacturing, and is believed to be currently one of the largest extrabroad, multi-coloured and jacquard fabrics manufacturers in the PRC.

The Group's production base equipped with advanced production facilities allows it to benefit from economies of scale. Strategically located in Shandong province, a textiles hub in China, the Group is well positioned with convenient access to abundant cotton supply, an essential raw material for production. From this, cotton is weaved into cotton yarn for fabric and bed linen sets production. While most manufacturers purchase cotton yarn externally, China Hongcheng is one of the few manufacturers who is able to produce cotton yarn for its own use, thus improving operational efficiency. Leveraging on its research and development capability, the Group has developed over 4,000 varieties of value-added fabrics and bed linen sets with innovative upto- date designs, to cater to the ever-increasing consumer demands for quality and value added content. In particular, the Group is able to develop high thread-count and high density fabrics of 1,600 thread-counts, the highest threadcount currently in the industry, which is used for the production of high-end home textile products.

These products are mainly sold to renowned OEM customers in the PRC for fabrics, and overseas for bed linen sets. Currently, the Group has over 320 customers , which is a testament to its product quality standards and concerted marketing efforts. They include reputable PRC brands Fuanna, Mendale, Lovo and Mercury, well-known overseas customers such as Target Corporation, one of the world's largest manufacturers of general merchandise, as well as some customers in emerging markets such as Malaysia.

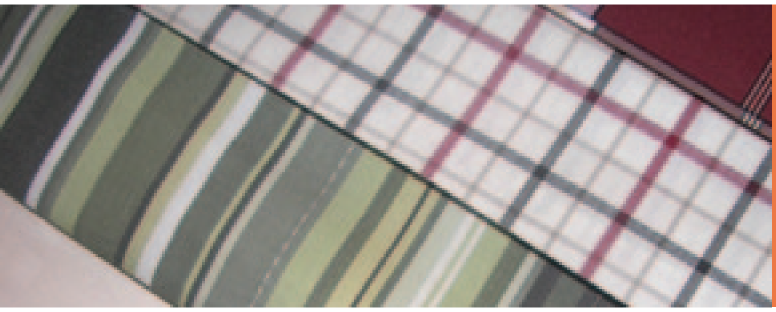
Our Products

The Group's cotton home textiles products are broadly classified into:



Grey & Dyed Cotton Fabrics

Jacquard Cotton Fabrics



Grey Cotton Yarn

Bed Linen Sets

Innovating for Comfort

When it comes to bedding, there is only one thing that matters, comfort. We dedicated ourselves to continuous research and development to develop numerous home textile fabrics, so as to ensure that our customers get the best comfort and quality, while deriving the best value for our shareholders.

Chairman's Message

"In line with the characteristic of the domestic market and various demands from different customers, the Group has developed more home textile products to fulfill the customers' need during the year."

Dear Shareholders,

On behalf of the Board, I would like to share with you the Group's performance for the year ended 30 June 2015 ("FY2015").

Financial Performance

In FY2015, the textile industry in the People Republic of China ("PRC") has experienced a complex change. The reform in domestic cotton policy has caused a significant decrease in the cotton prices. Although the domestic cotton prices are still higher than the overseas market, they have been close to the overseas cotton prices and thus enhance the competitiveness of the PRC textile export products. In addition, Shandong province had adjusted the tax policies relating to the textile industry to reduce the burden on textile manufacturers.

However, the pace of recovery of the overseas markets was slow and there were fluctuations in market demand. In the domestic market, affected by the reform in the domestic cotton policy, the cotton prices were continuously in the downward trend and textile manufacturers had to bear the pressure coming from the need to minimize the inventory levels and the decrease in product selling prices. Due to excess capacity of the PRC textile industry and the weak domestic demand, the market demand was worse than the previous year.

In FY2015, the Group recorded revenue of RMB289.4 million (FY2014: RMB383.9 million). As a result of a decrease in the sales of the Group's products and an increase in the purchase of cotton used for production, the gross loss was RMB173.5 million (FY2014: RMB13.2 million). The gross loss margin in FY2015 was 59.9% (FY2014: 3.4%). Overall, the Group recorded a loss for the year attributable to the owners of the Company of RMB237.8 million (FY2014: RMB77.5 million). The loss per share was RMB88.74 cents (FY2014: RMB28.93 cents). Net assets value per share as at 30 June 2015 was a deficit of RMB0.34 (FY2014: RMB0.55).

Inventories and marketing management

In accordance with the current year's market changes, the Group had closely monitored the cotton prices trend and adjusted the cotton purchase batches as well as its production schedules. In addition, the Group enforced aggressive marketing strategy to minimize its high prices inventories so that the impact from the domestic cotton policy reform can be reduced.

The Group had kept its emphasis in the sales and marketing strategy on both the domestic and overseas markets. As the domestic market demand was weak, the Group continuously targeted at well-known downstream home textile manufacturers such as Fuanna, Mendale, Lovo and Mercury. The Group also took this opportunity to increase its product quality.

As there were ample business opportunities arising from the economy recovery in the overseas markets, especially the US market, the Group had put in efforts to expand its export sales through attending exhibitions such as Canton Fair, Shanghai Home Textile Trade Fair and New York Home Textile Show to boost its sales orders. Therefore, the sales orders from long-term overseas customers such as Wilh Wuling GMBH and Co., KG in Germany, Target Corporation and Royal Plaza Textiles Inc in the US had increased significantly. In addition, the Group has passed Target's annual review on the Group's quality control and social responsibilities requirements. In addition, the Group has established a better business relationship with its European customers evidenced by a historical high level of dyed cotton fabric sales orders from them in FY2015.

Product R&D

Facing the weak market, the Group's strategy is "when the market is bad, focus on product research and development." In FY2015, in line with the sales and marketing strategy of both domestic and overseas markets, the Group continued to utilise the research and development strengths of its provincial standard enterprise technology center to develop several hundred new products particularly the dyed cotton fabric in order to fulfill the needs of the domestic well-known downstream home textile manufacturers and overseas customers.

Stringent Quality Control to Meet Customers' Need

To strengthen the market competitiveness of the Group's products and fulfill the different needs of the customers, the Group continued to upgrade its existing "Fabrics Quality Control Standards" (the Group internally called "H1 Standards" and "H0 Standards) which can help the Group to further satisfy the different requirements of various customers especially the well-known home textile manufacturers by taking into account the customers' feedback during production.

Boosts quality and efficiency

Facing the slowdown in the economic growth, the Group will continue to focus on boosting its competitiveness in term of product quality and efficiency. Through improving the maintenance plan, further tuning the existing import machineries and strengthening technical skills training for the work to to improve the quality of cotton yarn reduce the cotton costs and fabrics weaving efficiency. Furthermore, the Group had continued to improve the ERP management system and implemented online purchase bidding system. The information sharing through batch data processing reduced procurement costs effectively.

Prospect and strategy

In the foreseeable future, affected by the slowdown in the domestic economy, weak market demand and the fall in product selling prices, it is expected that there will not be any major changes in the short term. In addition, the high energy costs, high labour costs, high finance costs and various kinds of tax costs will continuously affect the textile industry and make the business environment of the textile manufacturers very tough.

Overseas markets are expected to undergo gradual recovery but with complex changes. The changes in the international oil prices, exchange rates, international trade and economic policy can lead to fluctuations in market demand. Meanwhile, the PRC also faces competitions from Indian and South East Asian textile manufacturers whose development and competitive advantage had already taken part of the PRC's market share .

The Group will continue to emphasize on the well-known branded textile manufacturers and at the same time explore other home textile business opportunities to seek new profit sources.

Overall, the Group will deal with the coming challenges prudently through utilising its management, technology and product strengths to ensure its operations are stable in this competitive business environment.

Appreciation

On behalf of the Board of Directors, I would like to take this opportunity to thank shareholders for your continued support and all employees for their sincere dedication to the Group during the year. I am confident that if we dare facing the existing difficulties and dare enterprising, the Group will enjoy the continuous development in the future.

Liu Ming
Executive Chairman and
Chief Executive Officer

主席报告

'为了符合国内市场的特征以及满足不同客户的各种需求，本集团推出了更多家庭纺织品来迎合客户的需求。'

致全体股东：

本人谨代表董事会，与阁下分享集团截至2015年6月30日止年度("FY2015")的表现。

财务表现

在FY2015，中国纺织业经历了一个比较复杂的变化。国内棉花政策的调整推动了棉花价格大幅度下降。虽然国内棉花价格仍高于国际市场，但已开始与国际市场接轨，提升了国内纺织品出口的竞争力。此外，山东省调整了纺织企业税收政策减轻了企业的负担。

但是，海外市场仍处在一个缓慢复苏期，市场需求存在波动。从国内情况看，受棉花政策调整影响，棉花价格一直处于下行区间，而纺织企业直接承受了消化库存和产品价格下降的压力；由于国内纺织产能过剩，内需不旺，市场需求远低于上年。

集团FY2015的销售收入是人民币2.894亿元 (FY2014: 383.9亿元)　而毛亏损是人民币1.735亿元　(FY2014: 毛利人民币1,320万元)，这是因为销售下跌和集团产品的棉花成本增加所致。FY2015的亏损率是59.9% (FY2014:　3.4%)。整体，集团录得公司拥有人应占亏损人民币2.378亿元(FY2014:　人民币7,754万元)。每股亏损是人民币88.74分(FY2013:　人民币28.93分)。于2015年6月30日的集团每股资产净值是负人民币0.34元(FY2014: 人民币0.55元)。

控制库存和销售

针对本年度市场变化，集团在本财年已开始紧密分析跟踪棉花价格动向，并控制棉花采购数量和纺织生产排程。另一方面，集团又出台激励性销售政策积极有效地消化高价库存来减低棉花政策改革而伴生风险的影响。

在经营方面，集团坚持国内和海外并重的市场战略。鉴于国内市场需求的低迷态势，内销仍然以国内"名牌家纺客户"为重点，集团维持"富安娜、梦洁、罗莱、水星"等家纺品牌的合格面料供应商，集团积极利用这优势，谋求提升产品品质与附加值。因此，于回顾年度内，集团内销客户主要是家纺品牌客户，其他客户的销售则大幅度减少。

针对海外市场有好转的商机，特别是美国市场，集团努力扩大出口，通过参加展销会如"广交会"、"上海家用纺织品交易会"和"纽约家纺展"拓展客户订单。因此，于FY2015来自德国的威奥公司（Wilh Wulfing Gmbh And Co., Kg）、美国的塔吉特公司(Target　Corporation)和皇家广场纺织品公司(Royal Plaza Textile Inc)等海外长期客户的订单有了大幅度增加。此外，集团还通过了美国TARGET的质量验厂年度复审及社会责任验厂，床品订单已排至2015年底。另外，与欧洲客户的色织布业务合作亦更加深入，FY2015内返单数量也创历年新高。

产品研发

面对市场低迷的情况，集团的策略是"越是市场低迷，越要注重产品研发"。于FY2015，为了配合国内和海外两个市场并重的经营战略，集团继续发挥省级的企业技术中心的研发优势，针对国内"家纺品牌客户"和海外客户的需求，开发投产了数百种新产品，特别是色织面料。

严格内控标准

为了提高集团产品在不同市场的竞争力和满足客户差异化的个性需求，集团坚持修订完善之前推行了的"H1"内控标准和"H0"　内控标准，并在生产过程中根据用户的反馈，　满足了不同客户群的需求，特别是"品牌家纺客户"的高严精细化要求。

于回顾年度内，根据不同标准、不同要求，设置了多条个性化专业生产线。通过严格的标准，严密质量检测，实现了产品质量波动最小，顾客满意度达到历史最好水平。为满足顾客，开拓国内外市场提供了良好的质量保障。

管理提质增效

面对经济增速放缓的新常态格局，集团始终坚持眼睛向内抓管理，集中提质增效提升企业竞争力。通过改善维修计划、对生产设备进一步调整协调和加强员工操作技能培训来提高棉纱质量、降低配棉成本和织机效率。另外，在完善ERP管理系统的同时，网上招标采购系统投入使用，利用大数据特性，实现了资源共享，有效降低了采购成本。

前景和战略

展望未来，受国内经济增速放缓影响、市场内需不旺和产品价格下降，预期市场在短期内不会有大的变化。此外，中国纺织业长期存在的能源成本高，招工难、劳动力成本高；融资难、融资贵；各种税费负担重等不利因素依然存在，令纺织企业经营环境艰巨。

预计海外市场仍会渐进复苏但复杂多变　。国际油价、汇率、国际经贸政策的变化，都会导致海外市场需求的波动。与此同时，中国也面临着来自印度和东南亚同行的竞争，他们的发展及竞争优势，已经挤压了中国市场份额。
集团将继续贯彻国内和海外两个市场并重的战略。国内市场在主打"品牌家纺客户"的同时，积极开展纺织品贸易，寻求新的利润增长点。

总之，集团在未来经营中将永远兢兢业业、永远如履薄冰，积极面对挑战，发挥自身管理、技术、产品优势，确保企业在竞争中稳健运营。

致谢

本人谨藉此机会，感谢全体股东的支持，感谢全体员工于回顾年度内的辛勤付出。
本人深信，无论局势如何变幻，只要认真面对，对外敢于挑战，对内做好管理，企业将会得到可持续发展。

刘明
总裁和执行主席

Financial Review

REVIEW OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Revenue

The Group's revenue decreased by approximately RMB94.5 million from RMB383.9 million in FY2014 to RMB289.4 million in FY2015. This was mainly attributable to the intense price competition and decrease in selling prices of the Group's products which was offset by the increase in sales volume, due to intense price competition brought by the decrease in the domestic cotton prices.

Overall sales to local customers decreased by 30.9% or approximately RMB92.7 million from RMB300.3 million in FY2014 to RMB207.6 million in FY2015 due to the keen competition and weak demand in the domestic market. In addition, overseas sales dropped slightly by 2% or approximately RMB1.8 million from RMB83.6 million in FY2014 to RMB81.8 million in FY2015.

As a result, the revenue contributed from the PRC and overseas sales accounted for 71.7% and 28.3% respectively (FY2014: 78.2% and 21.8% respectively) of the Group's total sales in FY2015.

Cost of sales and gross (loss)/profit

Cost of sales increased by approximately RMB65.8 million from RMB397.1 million in FY2014 to RMB462.9 million in FY2015 mainly due to an increase in sales volume of the Group's products. Gross loss increased by RMB160.3 million from RMB13.2 in FY2014 to RMB173.5 million in FY2015 and gross loss margin increased from 3.4% in FY2014 to 59.9% in FY2015. There was a significant decrease in the gross profit margin as the Group was still utilising its higher-priced cotton purchased previously to produce the Group's products and also due to the decline of the selling prices of the Group's products due to intense competition.

Other income

Other income decreased by approximately RMB3.0 million from RMB9.4 million in FY2014 to RMB6.4 million in FY2015 mainly due to the decrease in interest income as a result of the decrease in bank interest rates.

Administrative expenses

Administrative expenses decreased by approximately RMB4.6 million from RMB27.4 million in FY2014 to RMB22.8 million in FY2015 mainly due to the decrease in staff welfare expenses for the workers as the number of workers was reduced due to the decline in the Group's production capacity during FY2015.

Other expenses

Other expenses increased by approximately RMB11.4 million from a credit balance of RMB9.2 million in FY2014 to a debit balance of RMB2.2 illion in FY2015. This increase was mainly attributable to the decrease in reversal of provision for slow moving inventories made previously and an allowance for impairment of inventories made in FY2015.

Finance costs

Finance costs decreased by approximately RMB10.8 million from RMB50.8 million in FY2014 to RMB40.0 million in FY2015 due to the decrease in effective interest rates. As there is no alternative source of funding, the high finance costs continued to be an extremely significant cause of the loss.

Loss before income tax

Loss before income tax increased significantly by approximately RMB160.3 million from RMB77.5 million in FY2014 to RMB237.8 million in FY2015

Income tax expenses

There was no income tax chargeable for FY2015 (FY2014: RMB34,000).

Loss for the year

As a result of the above, loss for the year increased significantly by approximately RMB160.3 million from RMB77.5 million in FY2014 to RMB237.8 million in FY2015.

REVIEW OF FINANCIAL POSITION AS AT 30 JUNE 2015

Inventories

Inventories decreased by RMB188.4 million during the period under review, mainly due to the Group's policy to reduce those higher-priced cotton which were purchased previously, given the current situation where cotton prices are decreasing.

Trade and bills receivables

Trade and bills receivables decreased in line with sales by RMB17.8 million.

Prepayments, other receivables and deposits

Prepayments, other receivables and deposits decreased by RMB11.3 million in line with the decrease in sales. This was attributable mainly to the decrease in deposits paid to suppliers for the purchase of raw materials.

Trade payables

Trade payables decreased by RMB17.0 million mainly due to a decrease in the purchase of raw materials.

Accrued liabilities, other payables and deposits

Accrued liabilities, other payables and deposits received increased by RMB12.6 million due to a longer credit period obtained by the Group for staff insurances payable.

Other major assets and liabilities such as pledged deposits, bank borrowings and tax payable remained at approximately the same level as at 30 June 2014.

The net current liabilities of RMB575.7 million as at 30 June 2015 were mainly due to the Group's utilisation of short term bank borrowings to increase the flexibility in managing the Group's bank borrowings in accordance with the Group's working capital needs, which resulted in the reduction of interest costs.

The Group has maintained good relationships with the banks. As such, the Group is confident that the existing bank borrowings can be renewed as and when they fall due so that the operations of the Group will not be affected. Nevertheless, Management is monitoring the Group's cash flow closely to ensure that the Group has adequate working capital.

CASH FLOW STATEMENT REVIEW

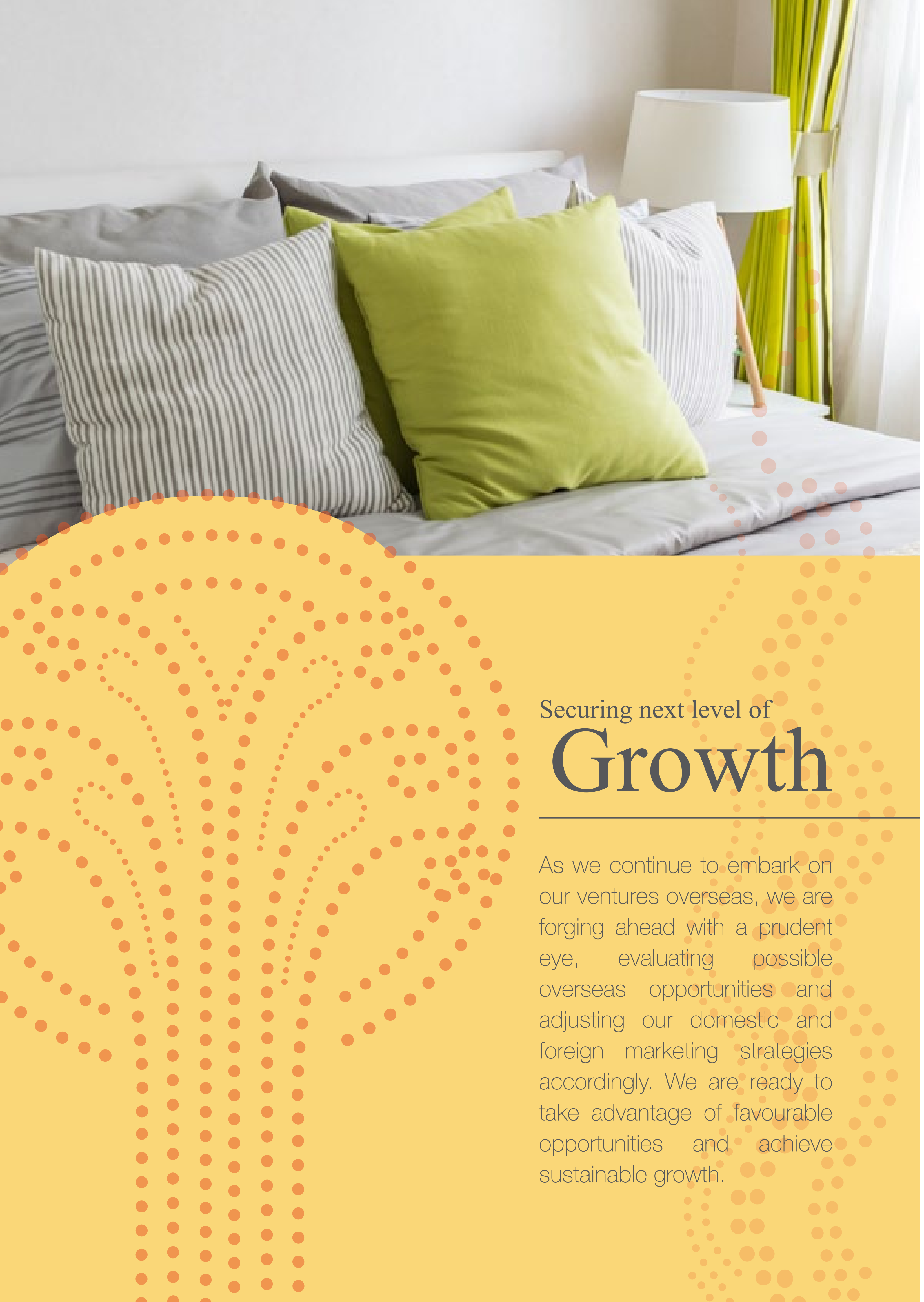
FY2015 vs FY2014

Net cash generated from operating activities was RMB55.8 million in FY2015 mainly due to the decrease in inventories compared with RMB31.0 million in FY2014.

Net cash generated from investing activities was RMB6.8 million in FY2015 mainly due to the bank deposits interest received compared with RMB7.8 million in FY2014.

Net cash used in financing activities was RMB68.3 million in FY2015 mainly due to the interest paid and repayment of bank borrowings during the period under review compared with RMB42.3 million in FY2014.

As a result, there was a net decrease in cash and cash equivalents of RMB5.7 million in FY2015 compared with RMB3.6 million in FY2014.

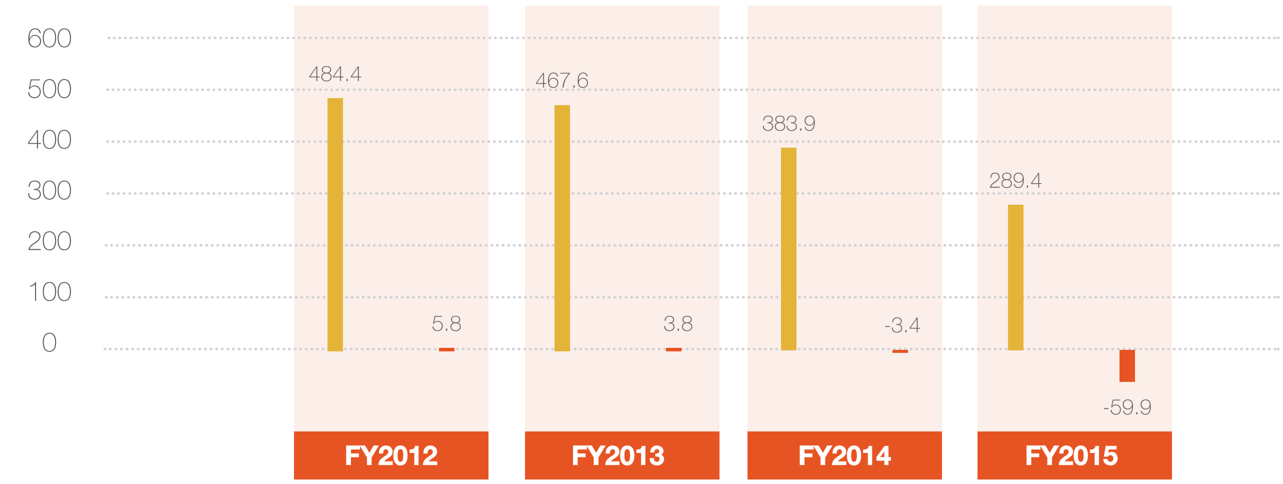


Securing next level of Growth

As we continue to embark on our ventures overseas, we are forging ahead with a prudent eye, evaluating possible overseas opportunities and adjusting our domestic and foreign marketing strategies accordingly. We are ready to take advantage of favourable opportunities and achieve sustainable growth.

Financial Highlights

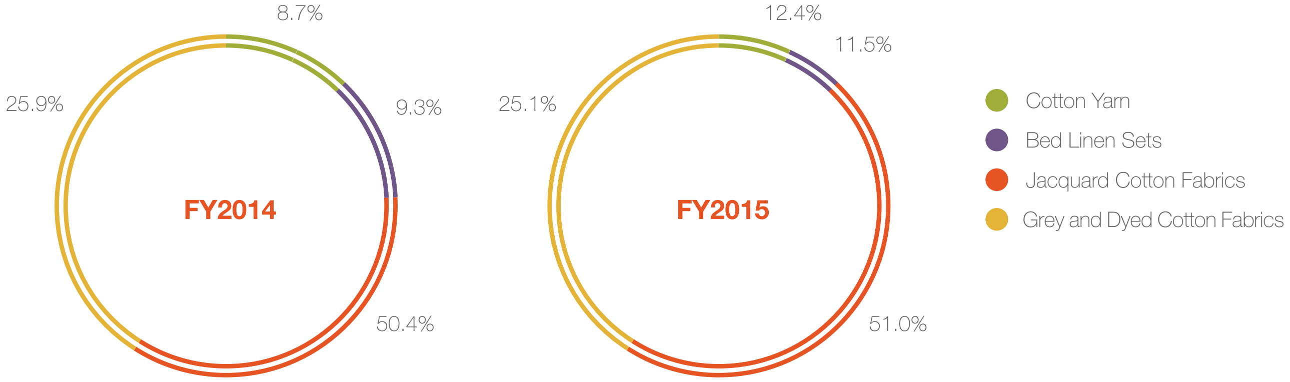
Turnover



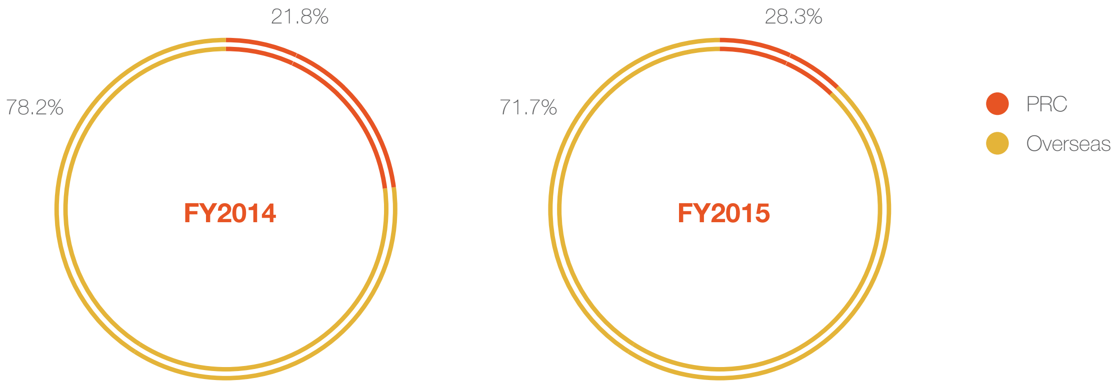
* Turnover for FY2015 decreased as a result of intense price competition and weak market demand.

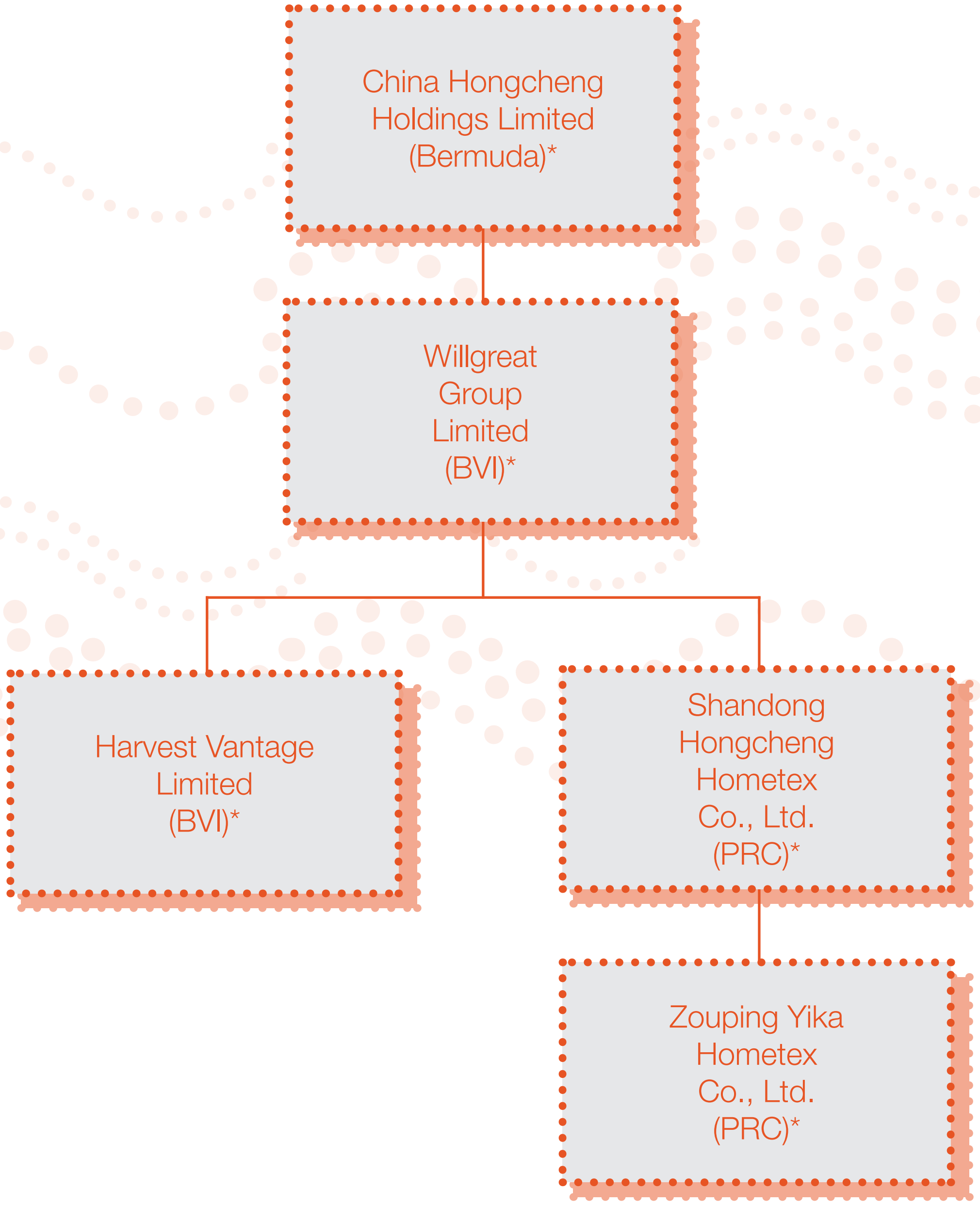
** Gross profit margin for FY2015 decreased due to the competitive pricing environment for Group's products and high utility and cotton controlled prices.

Turnover by Product Segment



Turnover by Geographical Segment





* Place of incorporation

LIU MING (刘明)

LIU MING (刘明) is the Executive Chairman and CEO of the Company and was appointed on 3 May 2007. He was last re-elected on 30 October 2013. He has more than 34 years of experience in the textile manufacturing industry and is primarily responsible for our business strategy and direction, the implementation of our corporate plans and policies and the general management of the business of our Group. Mr Liu has been with our Group since its beginning at the National Shandong Zouping Yarn factory (ZYF) (国营山东邹平棉纺织厂) in 1977 and has held various finance, production management and business management positions since then. In 1994, prior to the corporatisation of ZYF, Mr Liu was appointed the assistant factory manager. He was promoted to vice general manager of the Yashi Group (山东亚视集团公司) in May that same year following the corporatisation of ZYF. As a vice general manager, he was primarily responsible for the sales and marketing activities of the company. In 1999, he was promoted to chairman and general manager of the Yashi Group, a position he has held since. Mr Liu is concurrently the Chairman of the Group's subsidiary, Shandong Hongcheng Hometex Co., Ltd. (山东宏诚家纺有限公司). Mr Liu graduated from the Beijing Chemical Fibre Institute (北京化纤工学院) in June 1988 with a certificate in business management. He also enrolled into a part-time course at the Shandong University (山东大学) and graduated with a technical certificate in PRC legal studies in July 2002. Mr Liu was accredited with the title of "International Professional Manager" (国际 经理人资格证书) from the International Managers Union in 2005 and has also received various other awards and certificates such as "Binzhou City's 10 Most Outstanding Entrepreneurs" (州市十大杰出企业家) award and "Binzhou City's Model Worker" (模范) award in 2003, "Binzhou City's Excellent Entrepreneur" (滨州市优秀企业家) award in 2004 and 2005, "Shandong Province Textile Business Establishment" (山东省纺织企业创业奖) award in 2005, "Shandong Province Fumin Xinglu Employment Medal" (山东省富民兴鲁劳动奖章) and "National Textile Industry Model Employee" (全国 纺织 业劳动模范) award in 2006, and "Outstanding Person for Construction of Enterprise Culture for Shandong Province Textiles Industry" (2007 山东省纺织行业 企业文化建设杰出人物) in 2007, "2008 Outstanding Person for the Construction of Corporate Culture in the Textiles Industry in the PRC" (2008全国纺织优秀思想政治 工作者) in 2008 and the "Outstanding Enterpreneur of Shandong Province" (山东省 优秀企业家) in 2010.

ZHAO YAN (赵岩)

ZHAO YAN (赵岩) was appointed the Executive Director (Production) of the Company on 27 June 2007 and was last reelected on 30 October 2014. He has over 26 years experience in the textile manufacturing industry. Mr Zhao first joined ZYF as a maintenance staff in December 1981, a position he held until July 1984. He became a staff in the planning department in July 1987. Mr Zhao has subs quently held other positions in our Company including assistant to the general manager, production manager and vice production manager following the corporatisation of ZYF. He is currently responsible for overseeing our Group's entire production process and production plans, overseeing the development of new production techniques important engineering projectsand the customer development and financing activities of the Group. Mr Zhao studied in the Shandong Huimin District Textile Middle School between July 1984 to July 1987, and obtained a certificate in textile weaving following a period of full-time studies. He also undertook a part-time course at Shandong Finance Institute (山东经济学院) and was awarded a certificate in statistics in April 1994. In April 2002, Mr Zhao was awarded "Shandong Province Fumin Xinglu Employment Medal"(山东省富民兴鲁劳动奖章) for his outstanding contributions to the production management of our Group.

Board of Directors

CHENG WENLIANG
(成文亮)

CHENG WENLIANG (成文亮) is the Executive Director (Sales and Marketing) and was appointed on 27 June 2007. He was last reelected on 30 October 2013. He has over 22 years of experience in the textile manufacturing industry and is currently responsible for the sales and marketing activities of our Group. Mr Cheng joined ZYF in 1987 as a quality controller for raw materials. Following the corporatisation of ZYF in 1994, he was appointed the manager of the raw materials weaving department, a position he had held until April 1998. Mr Cheng was subsequently appointed manager of our sales and marketing department in December 1999 where he was responsible for coordinating the purchase of raw materials and the sale of our textile products, a position he had held until December 2003. Since then, he has also held various positions such as vice general manager and manager of the sales and marketing department. Mr Cheng graduated from the Shandong Province Dezhou Textile Technical School (山东省德州纺织工业学校) with a Certificate in Cotton Textile Studies in 1987 and in 1990 he graduated from the Shandong Textile Institute (山东纺院) with a Certificate in Textile Engineering. In 2002, Mr Cheng was awarded "2001 Binzhou Best Salesman" award (2001年滨州市市场营销工作最佳营销员).

ZHAO WEI (赵伟)

ZHAO WEI (赵伟) was appointed the Executive Director (Business Management and Quality Control) of the Group on 27 June 2007. He was last re-elected on 31 October 2012. He joined ZYF in 1987 as a technician and was involved in product design. He has since held various other appointments like chief of technical department, assistant to the general manager, vice general manager and assistant manager of our research and development centre. Mr Zhao has over 21 years of experience in the textile manufacturing industry and is also currently responsible for overseeing the research and development activities of our Group and has been instrumental in the establishment of our various research and development projects, such as our Computer-aided Design (CAD) room and dye-testing laboratory. Mr Zhao graduated from the Shandong Textile Institute with a Certificate in Wool Textiles in July 1987. He has also received several awards such as "Binzhou District Outstanding Quality Control Manager – 1994" award (1994滨州地区优秀质量 管理工作者) in 1995, second runner up for "Business Management Modernisation" award (企业管理现代化优秀成果三等奖) and "Business Technical Innovation Talent" award (企业 技术拔尖人 才奖) in 1995, "Binzhou City Technical Entrepreneur" award (滨州市科 技工作人) in 2003, second runner up for "Product Innovation Achievement – Coloured Jacquard Weaving" award (色提花织物-产品创新成果三等奖) in 2004 and "National Textile Industry Model Employee" (全国纺织工业劳动模范) in January 2011.

LU ZEMIN (卢则敏)

LU ZEMIN (卢则敏) is the Executive Director (Logistics and Purchasing) and was appointed on 27 June 2007. He was last reelected on 31 October 2012. He has over 34 years of experience in the textile manufacturing industry. Mr Lu joined ZYF when it was established in 1977 as a planning clerk and has held various appointments such as, head of the planning department, assistant to the general manager, head of the purchase department and vice general manager. He is currently in charge of our purchasing department and is also responsible for overseeing our Group's safety and logistics works. Mr Lu enrolled into a parttime course at the Shandong Economic Management Personnel Institute and graduated with a Certificate in Finance and Accounting in 1995.

WANG HONGXIA
(王红霞)

WANG HONGXIA (王红霞) is the Trade Union Chairperson of the Group. She was appointed as Executive Director of the Company with effect from 28 August 2012. She was last re-elected on 31 October 2012. Ms Wang has over 31 years experience in the textile manufacturing industry and is currently responsible for the management of therelationship between our employees and our Company as well as for the welfare of our employees. She joined ZYF in 1980 as a shift leader and has since held various appointments such as assistant chief of weaving workshop and chief of weaving workshop. Ms Wang graduated from Community Part School of Liaoning Province (辽宁刊授自修理 论学习班) with a certificate in Marxism Theory study in 1993. She also won the "Nominated Award for Binzhou City Top 10 Female Entrepreneur of Home Textile".

BOB LOW SIEW SIE

BOB LOW SIEW SIE is the Lead Independent Director of the Company and was appointed on 27 June 2007. He was last re-elected on 30 October 2014. He serves as Chairman of the Audit Committee and as a member of the Remuneration Committee. A Public Accountant and Chartered Accountant Singapore and also an Accredited Tax Advisor practising under Bob Low & Co. His expertise inter-alia are Corporate Assurance, Transactional Review, Corporate recovery and restructuring, judicial management, scheme manager, receiver and manager, liquidation, due diligence, project evaluation and litigation support. He is also Independent Director of LH Group Ltd and Interra Resources Ltd. He has a second class honours in Law from London University. And a member of Chartered Institute of Arbitrators UK and Hongkong, Singapore Academy of Law and the Insolvency Practitioner of Singapore , a fellow member of CPA Australia.A member of Australian Water Association.

Board of Directors

JIA LUO (贾罗)

JIA LUO (贾罗) was appointed an Independent Director of the Company on 27 June 2007 and was last re-elected on 31 October 2012. Mr Jia is a member of the Audit, Nominating and Remuneration Comittees. Mr Jia graduated from the high school of the First Middle School of Jinan City (济南市第一中学) in 1968. He worked in the textile industry since 1970, and has now been over 40 years. He was a member of the uppermiddle man agement of the No. 1 Textile Factory of Jinan City (济南一棉), the factory manager of No. 2 Textile Factory of Jinan City (济南二棉) for over four years, and the chairman of Jinan Qilu Chemical Fibre Group (济南齐鲁化 集团) for 10 years. He has rich textile enterprise operations management experience through his long term experience in enterprise operations. Between 1992 and 2004, Mr Jia was the head of Textile Bureau of Jinan City (济南市纺织工业局) and the chairman of The Committee of Textile Industry of Jinan City (济南市纺织工业协会), during which he was in-charge of the management work of the entire textile industry. He is an expert in industry management, and is currently the honorary chairman of The Committee of Textile Industry of Jinan City. Mr Jia studied in the Beijing Chemical Fibre Institute, and obtained a Degree in Management Engineering. He also obtained a Degree in Economics and Management from the CPC Party School (中央党校). Mr Jia was also a visiting professor of the Chemistry and Chemical Engineering Faculty of the Shandong University and the Management Engineering Department of the Beijing Institute of Fashion Technology. Mr Jia holds the professional qualification of a Senior Economist.

CHIA SENG HEE, JACK (杰克谢)

CHIA SENG HEE, JACK (杰克谢) Mr Chia Seng Hee, Jack was appointed as an Independent Director of the Company on 27 June 2007 and was last re-elected on 30 October 2013. He is the Chairman of the Nominating and Remuneration Committees and a member of the Audit Committee. Mr Chia currently runs his own investment advisory firm, Jack Capital Solutions Pte Ltd, which he set up in June 2005, after spending twenty years in both the private and public sectors, substantially in Japan and China. Mr Chia was Senior Director, International Enterprise Singapore (the former Trade Development Board) covering China operations from Shanghai. He was also with Singapore Technologies, Government of Singapore Investment Corporation as well as Arthur Andersen in marketing, asset management and consulting capacities respectively. Mr Chia graduated from the National University of Singapore with a degree in Accountancy and from the International University of Japan with a Master of Arts in International Relations. He is qualified as a Chartered Accountant of Singapore. He also completed the General Manager Program at Harvard Business School. Mr Chia's present directorships in other listed companies are mm2 Asia Ltc, Dukang Distillers Holdings Limited, Combine Will International Holdings Limited, Debao Property Development Limited and Shanghai Turbo Enterprises Limited.

Senior Management

YU HO FUNG (余浩峰)is our Group's Chief Financial Officer and one of the Joint Company Secretaries of the Group. Mr Yu is responsible for the preparation of the Group's financial statements and for the review and development of effective financial policies and financial control procedures within the Group. Mr Yu has over 16 years of accounting experience. Prior to joining the Group in June 2006, Mr Yu was at Kwan Wong Tan & Fong, CPA, an auditing firm, before moving to Ernst and Young, CPA in April 1997. In December 1999, Mr Yu joined Joinn Strategic Holdings Limited as a project controller and was primarily involved in accounting consultancy work. He subsequently became the financial controller of Associated Capital Limited in September 2005. Mr Yu has a bachelor degree in accounting from the Hong Kong Polytechnic University and holds memberships at the Association of Chartered Certified Accountants and the Hong Kong Institution of Certified Public Accountants.

Corporate Information

BOARD OF DIRECTORS:
Liu Ming (Executive Chairman and Chief Executive Officer)
Zhao Yan (Executive Director)
Cheng Wenliang (Executive Director)
Zhao Wei (Executive Director)
Lu Zemin (Executive Director)
Wang Hongxia (Executive Director)
Bob Low Siew Sie (Lead Independent Director)
Chia Seng Hee, Jack (Independent Director)
Jia Luo (Independent Director)

AUDIT COMMITTEE:
Bob Low Siew Sie (Chairman)
Chia Seng Hee, Jack
Jia Luo

NOMINATING COMMITTEE:
Chia Seng Hee, Jack (Chairman)
Jia Luo
Liu Ming

REMUNERATION COMMITTEE:
Chia Seng Hee, Jack (Chairman)
Bob Low Siew Sie
Jia Luo

JOINT COMPANY SECRETARIES:
Yu Ho Fung
Toh Li Ping, Angela

ASSISTANT COMPANY SECRETARY:
Codan Services Limited

REGISTERED OFFICE:
Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

PRINCIPAL PLACE OF BUSINESS:
Huixian 3 Road North
Zouping Economical Development Zone
Shandong Province
People's Republic of China
Telephone number: 86 543 4812051
Fax number: 86 543 4322052

BERMUDA SHARE REGISTRAR:
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11, Bermuda

SHARE TRANSFER AGENT:
B.A.C.S. Private Limited
8 Robinson Road #03-00
ASO Building
Singapore 048544

AUDITORS:
Moore Stephens LLP
Public Accountants and Chartered Accountants, Singapore
10 Anson Road #29-15
International Plaza
Singapore 079903

AUDIT PARTNER-IN-CHARGE:
Ng Chiou Gee Willy
Appointed with effect from financial year ended 30 June 2013

Corporate Governance Report

The Board of Directors (the "Board") of China Hongcheng Holdings Limited is committed to setting and maintaining a high standard of corporate governance within the Company and its subsidiaries (the "Group") by adopting and complying, where possible, with the principles and guidelines of the Code of Corporate Governance 2012 (the "Code") with the aim to preserve and enhance the interests of all stakeholders.

The Company recognises that good corporate governance establishes and maintains a legal and ethical environment, which is essential for preserving and enhancing the interests of all stakeholders. This report describes the corporate governance framework and practices of the Company that were in place throughout the financial year under review, with reference to the Code. The Board confirms that the Company has generally adhered to the principles and guidelines set out in the Code where they are applicable, relevant and practicable to the Group. Any deviations from the guidelines of the Code or non-compliance have been explained accordingly.

BOARD MATTERS

Principle 1: The Board's Conduct of its Affairs

The Board, in addition to its statutory responsibilities, is primarily and collectively responsible for overseeing and supervising the management of the business and corporate affairs to ensure proper conduct of the business, affairs and the overall performance of the Group and long-term success of the Company to protect and enhance long-term shareholders' value. Board members are expected to act in good faith and exercise independent judgement in the best interests of the Group.

The Board is responsible for:

1. providing entrepreneurial leadership, guiding and setting the strategic objectives and directions to ensure that the necessary financial and human resources are in place for the Group to achieve its objectives;

2. reviewing the adequacy and effectiveness of the risk management systems and internal controls, including information technology controls, financial, operational, and compliance controls, and to ensure that the areas of concern are addressed and recommendations of the Internal Auditors/Audit Committee ("AC") are implemented and monitor the progress of implementation;

3. reviewing the performance of the Group towards achieving adequate shareholders' value including but not limited to the declaration of interim and final dividends (if applicable), approval of financial results of the Group and the audited financial statements and timely announcements of material transactions;

4. approving all Board appointments or re-appointments and appointments of key management personnel as well as evaluating their performance and reviewing their compensation packages;

5. approving the Group's annual budgets, key operational matters, major funding proposals, investment and divestment proposals, corporate or financial restructuring, material acquisitions and disposal of assets and interested person transactions of a material nature, and convening of shareholders' meetings;

6. advising Management on major policy initiatives and significant issues and approving board policies, strategies and financial targets of the Company; and

7. overseeing the proper conduct of the Company's business, setting the Group's values and standards (including ethical standards) to ensure that obligations to shareholders and other stakeholdings are understood and met and reviewing the corporate governance processes.

The Board will consider sustainability issues such as environmental and social factors as part of its strategic formulation in line with the Code. Certain authority have been delegated by the Board to three Board committees, namely the AC, the Nominating Committee ("NC") and the Remuneration Committee ("RC"), which operate under clearly defined terms of reference. All Board Committees are chaired by an Independent Director. All members of the Board Committees save for the NC which comprises a majority of Independent Directors, are Independent Directors.

The Board accepts that while these Board Committees have the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively, will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for the decisions and actions rests with the Board.

The Board and Board Committees meetings are scheduled in advance to coincide with the announcement of the Group's quarterly results. Additional Board meetings will be convened when they are deemed necessary to address any significant issues that may arise in between the scheduled meetings.

The Company's Bye-Laws and Board Committees Terms of Reference provide for Board and Board Committees meetings to be held via telephone, electronic or other communication facilities which permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously. The Board and Board Committees also circulate written resolutions, when necessary, for approval by the relevant members of the Board and Board Committees.

Directors may request further explanations, briefing or discussion from Management on any aspect of the Group's operations or business. When circumstances require, Board members exchange views outside the formal environment of Board meetings. The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

The approval of the Board is required for any matters which are likely to have a material impact on the Group's operating units and/or financial positions as well as matters other than in the ordinary course of business.

Details of Directors' attendance at the Board and Board committees' meetings held for the financial year ended 30 June 2015 ("FY2015") are disclosed in the table below:

Meeting of	**Board**	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**
Total meetings held for FY2015	4	5	1	1
Liu Ming	4/4	N/A	1/1	N/A
Zhao Yan	4/4	N/A	N/A	N/A
Cheng Wenliang	3/4	N/A	N/A	N/A
Zhao Wei	4/4	N/A	N/A	N/A
Lu Zemin	4/4	N/A	N/A	N/A
Wang Hongxia	4/4	N/A	N/A	N/A
Bob Low Siew Sie	4/4	5/5	N/A	1/1
Chia Seng Hee, Jack	4/4	5/5	1/1	1/1
Jia Luo	4/4	5/5	1/1	1/1

Principle 2: Board Composition and Guidance

As at the date of this report, the Board comprises six Executive Directors and three Independent Directors. The Board composition is as follows:

Name	AC	NC	RC
Liu Ming (Executive Chairman and Chief Executive Officer ("CEO"))	–	M	–
Zhao Yan (Executive Director)	–	–	–
Cheng Wenliang (Executive Director)	–	–	–
Zhao Wei (Executive Director)	–	–	–
Lu Zemin (Executive Director)	–	–	–
Wang Hongxia (Executive Director)	–	–	–
Bob Low Siew Sie (Lead Independent Director)	C	–	M
Chia Seng Hee, Jack (Independent Director)	M	C	C
Jia Luo (Independent Director)	M	M	M

As at the date of this report, the Board comprises six Executive Directors, and three Non-Executive Directors, of which they are Independent. Pursuant to Guideline 2.1 of the Code, at least one-third of the Board is made up of Independent Directors. The Board is cognizant of the need to comply by its Annual General Meeting ("AGM") in 2017, with Guideline 2.2 of the Code which provides that where the Chairman is, inter alia, part of the management team or not an Independent Director, the Independent Directors should make up at least half of the Board.

The size and composition of the Board is reviewed annually by the NC to ensure that the size of the Board is appropriate so as to facilitate effective decision-making. When reviewing the composition of the Board, the NC will also take into consideration that there is an appropriate mix of expertise and experience and the Board members collectively possess the relevant skills which the Group may tap on for assistance in furthering its business objectives and shaping its business strategies.

The NC, with the concurrence of the Board, is of the view that the current size of the Board is adequate, taking into account the nature and scope of the Group's operations, and the requirements of the business. As a group, the Directors bring with them an appropriate balance and diversity of skills, experience and knowledge of the Group. Their core competencies include accounting, finance, law, business and industry and management experience, strategic planning and familiarity with regulatory requirements. The diversity of the Directors' experience allows for the useful exchange of ideas and views.

The Independent Directors contribute to the Board process by monitoring and reviewing Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging Management's proposals or decisions, they bring independent judgement to bear on business activities and transactions involving conflicts of interest and other complexities.

Key information and the profiles of the Board members are set out on pages 13 to 16 of the Annual Report.

Principle 3: Chairman and CEO

Mr Liu Ming is the Executive Chairman and CEO of the Company. He plays a key role in developing the business of the Group and provides the Group with strong leadership and vision. Mr Liu is responsible for the Group's overall business strategy and policies including but not limited to decision making and day-to-day running of the Group's operations.

Although the roles and responsibilities of the Chairman and the CEO are vested in Mr Liu, which is a deviation from the recommendation of the Code, the Board believes that vesting the roles of both Chairman and CEO in the same person who is knowledgeable in the business of the Group provides the Group with a strong and consistent leadership and thus, allowing for more effective planning and execution of long-term business strategies. As the Group's business and operations are based in the People's Republic of China ("PRC"), Mr Liu's dual role as Executive Chairman and CEO will enable the Group to conduct its business more efficiently and ensure that the decision-making process of the Group would not be unnecessarily hindered.

All major decisions made by Mr Liu are reviewed by the Board. The Board believes that there are adequate safeguards and checks in place to ensure that the process of decision-making by the Board is independent and based on collective decision-making without any individual being able to exercise considerable concentration of power or influence. As such, there is a balance of power and authority and therefore no one individual can control or dominate the decision-making process of the Company. The Board is not considering separating the roles of the Chairman and the CEO at this moment. The NC will review the need to separate the roles from time to time and make its recommendation when necessary.

As Chairman of the Board, Mr Liu is responsible for the effectiveness of the Board. He ensures that Board meetings are held when necessary, assists in ensuring compliance with the Group's corporate governance guidelines, acts as facilitator at Board meetings and monitors the translation of Board decisions into executive actions. He also ensures the quality, quantity and timeliness of information flow between the Board and Management and that the Board has sufficient opportunities for interaction and informal meetings with Management. The Company Secretaries assist the Chairman in scheduling the Board and Board Committees meetings respectively in consultation with the Chief Financial Officer ("CFO"), who is also the Joint Company Secretary.

In line with the recommendation of the Code, Mr Bob Low Siew Sie has been appointed Lead Independent Director of the Company to coordinate and lead the Independent Directors to provide non-executive perspectives in circumstances where it would be inappropriate for the Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board. He will also assist the Chairman of the Board to ensure effective corporate governance in managing the affairs of the subsidiaries and the Company. Mr Low is available to address the concerns, if any, of the Company's shareholders relating to matters which the contact through the normal channels of the Chairman and CEO or CFO has failed to render or where such contact is inappropriate.

Principle 4: Board Membership

NC

The NC comprises three members, a majority of whom are Independent Directors, including its Chairman. The members are as follows:

Chia Seng Hee, Jack	(Independent Director)	–	NC Chairman
Jia Luo	(Independent Director)	–	NC Member
Liu Ming	(Executive Chairman and CEO)	–	NC Member

The NC is responsible for the following under its terms of reference which are in line with the Code:

(a) reviewing the Board and Board Committees' structure, size and composition and making recommendations to the Board with regard to any adjustments, where appropriate;

(b) determining the process for search, nomination, selection and appointment of new Board members and assessing nominees or candidates for appointment to the Board, determining whether or not such nominee has the requisite qualifications and whether or not he/she is independent;

(c) reviewing and recommending to the Board on all appointments and re-appointments (including Alternate Directors, if applicable), or the nomination of retiring Directors and those appointed during the year standing for re-election at the Company's annual general meeting, having regard each Director's competencies, commitments, contribution and performance;

(d) ensuring that all Directors submit themselves for re-election at regular intervals;

(e) assessing the performance and effectiveness of the Board as a whole;

(f) reviewing and evaluating whether or not directors who have multiple board representations are able to and have been effectively carrying out his/her duties as a Director of the Company, having regard to the competing time commitments that they face when serving multiple Board representations and other principal commitments and to recommend to the board guidelines to address competing time commitments faced by such Directors, if necessary;

(g) reviewing and determining annually whether a Director is independent, bearing in mind the circumstances set forth in the Code and any other salient factors; and

(h) reviewing Board succession plans for the Executive Directors, in particular, the Chairman and CEO and progressive renewal of the Board by considering each Director's competencies, commitment, contribution and performance (e.g. attendance, preparedness, participation and candour).

The NC has adopted a Process for Selection and Appointment of New Directors which provides the procedures for identification of potential candidates, evaluation of candidates' skills, knowledge and experience, and assessment of candidates' suitability. The curriculum vitae and other particulars/documents of the nominee or candidate will be reviewed by the NC taking into account his/her qualifications, business and related experience, commitment, ability to contribute to the Board process and such other qualities and attributes that may be required by the Board, before making its recommendation to the Board. The Board believes that contributions from each Director go beyond his/her attendances at Board and Board Committees' meetings.

Newly appointed Executive Directors are provided with Service Agreements setting out the terms and conditions of their appointment for an initial fixed period of three years. The Service Agreement, which is subject to the RC's review and recommendations, will be renewed upon its expiry of the first term unless terminated by either party. For an Independent Director, a formal letter of appointment will be issued to him/her setting out the terms and conditions of his/her appointment.

All Directors, including newly appointed Directors, will be briefed and provided with background information about the Group's history, structure, business operations, vision and values, strategic direction, policies and governance practices. The Directors will also have the opportunity to visit the Group's operational facilities and to meet with Management so as to gain a better understanding of the Group's business operations and governance practices. On an ongoing basis, the Board will also be briefed by professionals during Board meetings or at separate seminars on the amendments and requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST") and other statutory and regulatory changes which may have an important bearing on the Company and the Directors' obligations to the Company, from time to time. The NC had adopted the Code's definition of an independent director and guidelines as to relationships in determining the independence of a Director. In addition, the NC requires each Independent Director to state whether he considers himself to be independent despite having any of the relationships identified in the Code which would deem him not to be independent, if any.

For FY2015, the NC has reviewed the independence of the Board members with reference to the guidelines set out in the Code. The NC had considered the Confirmation of Independence forms submitted by Mr Bob Low Siew Sie, Mr Chia Seng Hee, Jack and Mr Jia Luo and determined that they are independent and free from any of the relationships outlined in the Code. The Directors had also confirmed their own independence. The Board concurred with the NC's views.

None of the Directors on the Board are related and do not have any relationship with the Company or its related companies (save for Mr Liu Ming, who is a substantial shareholder of the Company) or its officers or are in any circumstances that could interfere or be reasonably perceived to interfere with the exercise of their independent business judgement with a view to the best interests of the Company.

None of the Independent Directors has served on the Board beyond nine years from the date of his appointment.

In accordance with the Company's Bye-laws, each Director is required to retire by rotation at least once in every three years and all newly appointed Directors will have to retire at the next AGM, following their appointments. The retiring Directors are eligible to offer themselves for re-election.

Each member of the NC had abstained from voting on any resolution and making any recommendation and/or participate in respect of his re-election, if any, as Director.

The NC, having considered the attendance and participation of Mr Zhao Wei, Mr Lu Zemin, Mr Jia Luo and Ms Wang Hongxia at the Board and Board Committees' meetings, in particular, their contributions to the business and operations of the Company as well as Board processes, had recommended their nomination for re-election as Directors of the Company, pursuant to Bye-law 86 of the Company's Bye-laws, at the forthcoming AGM of the Company.

The Board has accepted the NC's recommendation and these Directors, being eligible, will be offering themselves for re-election at the forthcoming AGM. Mr Jia Luo, if re-elected, will remain members of the AC, NC and RC and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.

The NC had also reviewed the multiple-board seats held by the Non-Executive Directors in listed companies to determine if they had been adequately carrying out their duties as a Director of the Company. The NC, having considered the confirmations received by the Non-Executive Directors is of the view that such multiple board representations do not hinder each Non-Executive Director from carrying out his duties as a Director of the Company. The NC is satisfied that sufficient time and attention have been accorded by these Directors to the affairs of the Company. The Board concurred with the NC's views.

In determining whether each Director is able to devote sufficient time to discharge his duty, the NC has taken cognizance of the Code's requirement, but is of the view that its assessment should not be restricted to the number of board representations of each Director and his respective principal commitments per se. The contributions by Directors to and during meetings of the Board and Board Committees as well as their attendance at such meetings, in addition to each of their principal commitments, should be taken into account. The NC and the Board will review the number of listed company board representations of the Directors from time to time when the need arises.

Principle 5: Board Performance

The Group has in place a system to assess the performance of the Board as a whole.

Currently, the Board does not assess the performance of each Director or at the Board Committee level. The Board is of the view that given the Board's size, cohesiveness of Board members and attendance of Directors at Board Committees' meetings, there is no value-add in having assessments of Board Committees and individual Board members. To-date, no external facilitator has been used.

The board performance evaluation is conducted annually by the NC. Each Director is required to complete a questionnaire relating to the size and composition of the Board, information flow to the Board, Board procedures and accountability, matters concerning CEO/Key Management Personnel and standard of conduct of its Board members.

The Board has taken the view that the financial indicators recommended by the Code to be included as part of the performance criteria for Board evaluation are not appropriate as these are more of a measurement of Management's performance and therefore less applicable to the whole Board.

An evaluation of the Board's performance for FY2015 was conducted. The evaluation exercise provided feedback from each Director, his views of the Board, procedures, processes and effectiveness of the Board as a whole. The results of the Board Performance Evaluation were collated and the findings were presented to the NC for discussion with comparatives from the previous year's results.

The NC noted that there was a nominal decrease in the average scores for FY2015 compared to FY2014. However, it is generally satisfied with the results of the Board Performance Evaluation for FY2015, which indicated areas of strengths and those that could be improved further. No significant problems were identified. The NC had discussed the results with the Board members who agreed to work on those areas that could be improved further. The NC would continue to evaluate the process for such review and its effectiveness from time to time.

Principle 6: Access to Information

Board members are provided with adequate and timely information on Board affairs and issues that require the Board's decision. All Directors have separate and independent access to the Group's senior management and the Company Secretaries. All Directors are provided with complete and adequate information, relevant board papers and report prior to Board meetings and on an ongoing basis. These reports provide information on the Company's performance, financial position, significant issues and any other matter which may be brought before the Board. The Company Secretaries provide secretarial support to the Board, ensure adherence to Board procedures and relevant rules and regulations which are applicable to the Company. At least one of the Company Secretaries attends all Board and Board Committees' meetings. The Directors also have unrestricted access to the Company's information, all minutes of meetings held by the Board, and management accounts to enable them to carry out their duties.

Where decisions to be taken require expert opinion or specialised knowledge, the Directors, either as a group or individually, may seek independent professional advice as and when necessary in furtherance of their duties at the Company's expense. The appointment of such independent professional advisor is subject to approval by the Board.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The RC comprises three members, all of whom are Independent Directors as set out below:

Chia Seng Hee, Jack	(Independent Director)	–	RC Chairman
Bob Low Siew Sie	(Lead Independent Director)	–	RC Member
Jia Luo	(Independent Director)	–	RC Member

The RC is responsible for the following under its terms of reference which are in line with the Code:

(a) reviewing and recommending to the Board a general framework of remuneration and determining the specific remuneration packages and terms of employment for each Executive Director, key management personnel of the Group;

(b) recommending the appropriate remuneration of the Non-Executive Directors to the level of their contribution, taking into account factors such as their effort, time spent and their responsibilities and that they should not be overly compensated;

(c) recommending to the Board long term incentive schemes which may be set up from time to time; and

(d) carrying out other duties in the manner that it deems expedient, subject always to any regulations or restrictions that may be imposed upon the RC by the Board from time to time.

The scope of the RC's review covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, and benefits-in-kind. The remuneration packages take into consideration the long-term interests of the Group, industry standards, and ensure that the interests of the Executive Directors are aligned with that of the shareholders. The recommendation of the RC for the Directors' remuneration would be submitted to the Board for endorsement.

No Director or member of the RC is involved in deciding his or her own remuneration.

The Company did not appoint any remuneration consultant. If required, the RC will seek expert's advice inside and/or outside the Company on remuneration of all Directors and key management personnel.

Principle 8: Level and Mix of Remuneration

The remuneration packages are set such that the Directors are adequately but not excessively remunerated compared to the pay and employment conditions of other comparable companies in the industry in view of the prevailing economic situation, skills, expertise and present market conditions and which takes into account the individual's and the Company's performance.

The Executive Chairman and CEO, Mr Liu Ming, and the Executive Directors, Mr Zhao Yan, Mr Zhao Wei, Mr Cheng Wenliang, Mr Lu Zemin and Ms Wang Hongxia, had each entered into separate Service Agreements with the Company which were subject to review and renewal upon expiry or unless terminated by either party giving not less than either six months' or three months' notice to the other.

The Company does not have any contractual provisions which allow the Company to reclaim incentive components of remuneration from Executive Directors and/or key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the Company as such provisions will stifle the Company's ability to adequacy and effectively attract and retain the right individuals.

The RC had also carried out an annual review of the Chairman and Key Management Personnel's remuneration packages to ensure that their remuneration commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group. For FY2015, the RC is satisfied with the Executive Directors' and Key Management Personnel's remuneration packages and had recommended the same for Board's approval. The Board had approved the RC's recommendations accordingly.

The Independent Directors are paid Directors' fees, which are based on their contribution and responsibilities on the Board and Board committees and are subject to shareholders' approval at every AGM. The RC, with the concurrence of the Board, is of the view the current remuneration of the Independent Directors is appropriate, taking into account factors such as effort and time spent, and responsibilities of the Directors. Other than the Directors' fees, which have to be approved by shareholders at every AGM, the Independent Directors do not receive any other forms of remuneration from the Company.

The RC had recommended to the Board an amount of RMB670,448 as Directors' fees for the year ending 30 June 2016 ("FY2016") which is the same as FY2015, payable half-yearly in arrears. This recommendation had been endorsed by the Board and will be tabled at the forthcoming AGM for shareholders' approval.

No Director is involved in deciding his or her own remuneration.

The Company does not have a share option scheme or long term incentive scheme in place currently.

Principle 9: Disclosure on Remuneration

Directors' remuneration

A breakdown of each individual Director's remuneration, in percentage terms and bands of S$250,000 showing the level and mix for the FY2015, is as follows:

Name of Director	Director's fees (%)	Base/ Fixed Salary (%)	Variable/ performance income/ bonuses (%)	Benefits in kind (%)	Other long–term incentives (%)	Total (%)
Below S$250,000						
Liu Ming	–	100	–	–	–	100
Wang Hongxia	–	80	20	–	–	100
Zhao Yan	–	80	20	–	–	100
Cheng Wenliang	–	71	29	–	–	100
Zhao Wei	–	82	18	–	–	100
Lu Zemin	–	79	21		–	100
Bob Low Siew Sie	100	–	–	–	–	100
Chia Seng Hee, Jack	100	–	–	–	–	100
Jia Luo	100	–	–		–	100

Details of remuneration paid to the top Executive Officer of the Group (who are not Directors) for FY2015, are set out below:

Name of Executive Officer	Base/ Fixed Salary (%)	Variable/ performance income/ bonuses (%)	Benefits in kind (%)	Other long-term incentives (%)	Total (%)
Below S$250,000					
Yu Ho Fung	100	–	–	–	100

Notwithstanding Guideline 9.1 of the Code, as there was only one Key Management Personnel during FY2015, disclosure is only made in respect of the remuneration of this only one Key Management Personnel of the Group.

Due to confidentiality and commercial sensitivity attached to remuneration matters, in particular those of our key management personnel given the highly competitive environment the Group operates in, the Company does not fully disclose the remuneration of each individual Director and Key Management Personnel. However, disclosure had been provided in bands of S$250,000 instead, with a breakdown in percentage of the remuneration earned through fees, salary, fixed component, variable component, benefits in kind, and/or other long term incentives. As there is only one Key Management Personnel, the Company is not disclosing the aggregate remuneration of the Key Management Personnel.

There are no employees of the Group who are immediate family members of a Director or CEO for FY2015.

The Company does not have a share option scheme in place. It has a Performance Incentive Scheme which is a bonus computed based on a percentage of the aggregate dividend declared annually for each financial year, if any, by the Group and approved by the Shareholders. The participants to the Performance Incentive Scheme are employees holding certain management positions, in respect of services rendered for a completed financial year. The appropriate percentage of dividends declared annually for each financial year, if any, payable to employees within the management positions is 7.98% and disclosed in the table above.

Details of the Performance Incentive Scheme are disclosed on the Company's Prospectus dated 27 July 2007. For FY2015, as the Group had recorded a loss, no Performance Incentive had been given.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board provides shareholders with a detailed, balanced and understandable explanation and analysis of the Company's performance, position and prospects on a quarterly basis within the timeline as stipulated in the Listing Manual of the SGX-ST. All the financial information presented in the results announcement or Annual Report have been prepared in accordance with the International Financial Reporting Standards and approved by the Board before being released to the SGX-ST and the public via SGXNET.

In line with SGX-ST Listing Manual, negative assurance statements were issued by the Board to accompany its quarterly financial results announcements, confirming to the best of its knowledge that, nothing had come to its attention which would render the Company's quarterly results to be false or misleading. The Company is not required to issue negative assurance statements for its full year results announcement.

Management provides the Board with information on the Group's performance, position and prospects on a quarterly basis to ensure that they effectively discharge their duties. This is supplemented by updates on matters affecting the financial performance and business of the Group if such event occurs.

Principle 11: Risk Management and Internal Controls
Principle 13: Internal Audit

The Board acknowledges that it is responsible for the overall internal control framework and the maintenance of a sound system of internal controls and an effective risk management system to safeguard the Group's assets and shareholders' interests.

The Group's control environment provides the foundation upon which all other components of internal controls are built upon. It provides discipline and structure, setting the tone of the organization and influencing the control consciousness of its staff. A weak control environment foundation hampers the effectiveness of even the best designed internal control procedure.

The effectiveness of the internal control system and procedures at present are monitored by Management. The Company does not have a Risk Management Committee. However, Management regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. Management reviews all significant control policies and procedures and highlights all significant matters to the Directors and AC.

The Board recognises that no internal control system will preclude all errors and irregularities, as a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The review of the Group's internal control systems is a concerted and continuing process.

The AC, with the concurrence of the Board, had adopted a Management Assurance Confirmation Statement ("Management Assurance Statement") in line with the Code. The Board noted that the AC had received the duly signed Management Assurance Statement from the Executive Chairman and CEO, and the Chief Financial Officer at the Company's meetings for the second quarter ended 31 December 2014 and FY2015, confirming, to the best of their knowledge, that:

1. The financial records of the Group have been properly maintained;

2. The Group's financial statements give a true and fair view of the Group's operation and finances;

3. A risk management and internal control systems have been put in place; and

4. The internal controls, including financial, operational, compliance and information technology controls, and risk management systems are adequate and effective.

As the possibility of finding a suitable internal audit firm in the PRC is low, the Group has continued to engage Shandong Jianxin Certified Public Accountants Corporation (山东鉴鑫会计师事务所有限公司), an independent external firm, as its Internal Auditors ("IA") for FY2015. The IA reports directly to the AC Chairman on all internal audit matters and findings from the audit process. The IA will review and test the Group's internal controls system for adequacy and effectiveness.

During FY2015, the AC had requested the Company's IA to liaise with Management to explain the internal control weaknesses and remedial actions to be taken by the Group. The AC had held a meeting in the PRC with the External Auditors, Internal Auditors and the PRC finance team together with the CFO in April 2015 for an update on the internal controls issues.

The AC, with the assistance of the internal and external auditors, has reviewed the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and informational technology controls, and risk management policies and systems established by the Management for FY2015.

The internal and external auditors have, during the course of their audit, carried out a review of the adequacy and effectiveness of key internal controls within the scope of their audit for FY2015. The External Auditors has also brought to the AC's attention that in the course of their audit, certain weaknesses in procedures and areas to improve operating efficiency that came to their attention.

In addition, it was stated in the Company's full year results announcement dated 29 August 2015 that the External Auditors were unable to conclude on the validity and appropriateness of those costs of inventories sold as they had not yet completed their necessary audit procedures and will need to carry out their audit on the underlying supporting documents which Management was in the midst of compiling. The AC had directed Management to work with the External Auditors on the provision of the underlying supporting documents on those costs of inventories.

However, the above issues remained unresolved in October 2015. As such, the Company had applied to the SGX-ST for an extension of time of two (2) months (up to 31 December 2015) to hold its AGM for FY2015, pursuant to Rule 707(1) of the SGX-ST Listing Manual due to several outstanding matters which resulted in a delay in the audit of the Group's financial statements for FY2015. The most significant of which are the assessment of net realisable value of the Group's inventories as at 30 June 2015 and receipt of audit confirmations from banks, debtors and creditors which are pending and not yet completed as of October 2015.

As the Company had incurred significant losses in FY2015 and in view of the decline in selling prices of the Group's products, management was required to assess the net realisable value of the Group's inventories as at 30 June 2015; inventories has to be written down to its net realisable value if the net realisable value is lower than its carrying cost. Despite the efforts made by the Company's finance team to prepare and its external Auditor, Moore Stephens LLP, to audit the underlying supporting documents/information, the audit cannot be completed in time due to the large volume of inventories and the details involved. For the completion of the confirmation procedures for certain banks, debtors and creditors, it was affected by unexpected postal failures, resulting in numerous sending/re-sending of those confirmations. Hence, these outstanding matters had required extra time and efforts to complete the audit of the Group's financial statements for FY2015.

The External Auditors had also highlighted the following observations which were noted during their course of audit and which may have led to the aforesaid issue with respect to the costs of inventories sold:

1. Control over raw material purchase should be enhanced

2. Errors in the recognition of sales and purchases

3. Credit balances in inventories

4. Control over inventories cost computation should be enhanced

Notwithstanding that the audit of the financial statements for FY2015 had been completed, Management, having accepted the recommendations to the above audit observations, will take progressive steps to implement the recommendations. As these recommendations are still in the course of being implemented, the AC and Board, with the assistance of the internal and external auditors will continue to monitor the implementation of the proposed recommendations.

Based on the internal controls established and maintained by the Group, internal and external work performed by the Internal Auditors and External Auditors respectively, Management Assurance, and reviews performed by the AC and Board, the Board, with the concurrence of the AC is of the opinion that, save for the weaknesses in the operating effectiveness of internal controls in respect of FY2015 as highlighted above, the Group's internal control systems in place were adequate as at 30 June 2015 to address the financial, operational, compliance and information technology risks within the current scope of the Group's business. Management will take efforts, which include strengthening the Group's finance function while continuing to work closely with its External Auditors, Internal Auditors and other professionals, to minimise the risk of recurrence of such weaknesses in its internal control systems.

Principle 12: AC

The AC comprises three members, all of whom are Independent Directors as set out below:

Bob Low Siew Sie	(Lead Independent Director)	-	AC Chairman
Chia Seng Hee, Jack	(Independent Director)	-	AC Member
Jia Luo	(Independent Director)	-	AC Member

The AC meets at least four times a year and, as and when deemed appropriate to carry out its functions.

The AC has the authority to investigate any matter within its terms of reference. The AC has full access to and the co-operation of Management and also full discretion to invite any director or executive officer to attend its meetings, and is given adequate resources to enable it to discharge its functions properly.

The AC is regulated by a set of written terms of reference, which are in line with the Code. The AC is responsible for the following under its terms of reference:

(a) reviewing with the internal and external auditors their audit plan, evaluation of the system of internal controls, audit report, letter to Management and Management's response respectively;

(b) reviewing the Group's quarterly and full year financial results and announcements before submission to the Board for approval so as to ensure the integrity of the Company's financial statements, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the SGX-ST Listing Manual and any other relevant statutory or regulatory requirements;

(c) reviewing the adequacy and effectiveness of the Company's internal controls, including financial, operational, compliance and information technology controls, and risk management systems;

(d) ensuring where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by Management;

(e) reviewing the internal control and procedures to ensure co-ordination between the internal and external auditors, and co-operation from Management and assistance given to facilitate their respective audits and problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of Management, where necessary);

(f) reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response;

(g) reviewing the scope and results of the internal audit programme/procedures and reviewing at least annually the adequacy of effectiveness of the Company's internal audit function including ensuring it is staffed with persons with the relevant qualifications and experience and has appropriate standing within the Company;

(h) reviewing annually the scope and results of the audit and its cost effectiveness as well as independence, objectivity, and performance of the internal and external auditors;

(i) ensuring the co-ordination between the internal and external auditors and where more than one auditing firm or corporation is involved.

(j) reviewing arrangements by which staff of the Group may in confidence raise concerns about possible improprieties in financial reporting or other matters;

(k) reviewing the appointment or re-appointment of the internal and external auditors and matters relating to resignation or dismissal of the auditors (if any);

(l) reviewing Interested Person Transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

(m) reviewing potential conflicts of interest, if any;

(n) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board its findings from time to time on matters arising and requiring the attention of the AC; and

(o) generally undertaking such other functions and duties as may be required by the statutes or the SGX-ST Listing Manual, or by such amendments as may be made thereto from time to time.

The Board is of the view that the members of the AC are appropriately qualified, having the necessary recent and relevant accounting or related financial management expertise or experience as the Board interprets such qualification in its business judgement, to discharge their responsibilities.

The AC meets with the Group's internal and external auditors and Management to review accounting, auditing and financial reporting matters. In performing its functions for FY2015, the AC had:

(i) held four meetings for the financial year with Management and whenever necessary, the internal and external auditors.

(ii) reviewed the internal and external audit plans, including the nature and scope of work before commencement of these audits.

(iii) met up with the Group's internal and external auditors without the presence of Management to discuss their findings set out in their respective reports to the AC. Both the internal and external auditors had confirmed that they had full access to and received the full cooperation and assistance of Management and no restrictions were placed on the scope of audit.

(iv) reviewed and approved the consolidated statement of comprehensive income, statements of financial position, statements of changes in equity, consolidated cash flows and auditors' reports.

(v) conducted a review of the non-audit services provided by the external auditors to satisfy itself that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors as well as the cost effectiveness of the audit before confirming their re-nomination. The audit fees amounting to S$160,000 or equivalent RMB780,487 for FY2015 were approved. There were no non-audit fees for FY2015.

    The external auditors had also confirmed their independence in this respect.

(vi) recommended the re-appointment of Messrs Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, as Auditors of the Company at the forthcoming AGM.

Messrs Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, is registered with the Accounting and Corporate Regulatory Authority.

Together with an engagement team based on expertise and skills most relevant to the technical requirements of the engagement, the AC was satisfied that the resources and experience of Messrs Moore Stephens LLP, the Audit Engagement Partner and his team assigned to the audit were adequate to meet its audit obligations, given the size and complexity of the Group.

In view of the above, the AC, with the concurrence of the Board, is of the view that the re-appointment of Messrs Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, as Auditors of the Company had complied with Rule 712 of the SGX-ST Listing Manual.

(vii) confirmed that the Company had complied with Rule 715 of the SGX-ST Listing Manual in relation to the appointment of the same auditing firm based in Singapore to audit its accounts, its subsidiaries and significant associated companies, its foreign-incorporated subsidiaries and associated companies. The Group's subsidiaries are disclosed under Note 12 of the Notes to the Financial Statements on pages 68 and 69 of this Annual Report. There are no associated companies.

The External Auditors and/or the Group's Chief Financial Officer will keep the AC abreast of changes to accounting standards and issues, if any, which have a direct impact on the financial statements through updates and/or reports from time to time, where applicable or relevant. In addition, the AC is entitled to seek clarification from Management, the External Auditor or independent professional advice, or attend relevant seminars at the Company's expense from time to time to apprise themselves of accounting standards/financial updates.

The Group had adopted a whistle-blowing programme ("Whistle-Blowing Policy") which had been amended in line with the Code whereby employees of the Group and any other persons can communicate their concerns over fraudulent activities, malpractices or improprieties within the Group, in a responsible and effective manner. There were no reports of whistle blowing received in FY2015.

Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Group continues to keep all stakeholders informed of its corporate activities on a timely and consistent basis. In line with continuous disclosure obligations, the Company is mindful of the need for regular and proactive communication with its shareholders. Communication with shareholders is done via announcements and/or press releases on a timely basis through:

(a) SGXNET announcements and press releases on major developments of the Group;

(b) financial statements containing a summary of the financial information and affairs of the Group for the quarterly and full year via SGXNET;

(c) annual reports or circulars that are sent to all shareholders; and

(d) notices of and explanatory notes for general meetings.

Shareholders are invited and encouraged to attend the Company's general meetings which are convened in Singapore to put forth any questions they may have on the motions to be debated and decided upon, to ensure high level of accountability and to stay informed of the Group's strategy and goals. At the AGM, shareholders are given opportunities to voice their views and seek clarification on issues relating to the Group's performance and the businesses outlined in agenda of the AGM Notice. The general meetings are the principal forum for dialogue with shareholders. If any shareholder is unable to attend these meetings, he/she is allowed to appoint up to 2 proxies to vote on his/her behalf at the meetings. The duly completed and original signed proxy form is required to be submitted at least 48 hours before the general meeting and deposited at the Company Share Transfer Agent's office. The notices of the general meeting are dispatched to shareholders together with explanatory notes, at least 14 clear days before each meeting for ordinary resolutions and at least 21 clear days for special resolutions to be passed. The notice is also advertised in a national newspaper.

Each distinct issue is proposed as a separate resolution at the general meeting.

The Chairmen of the AC, NC and RC or their representatives and the external auditors will be present at the forthcoming AGM to attend to queries raised by the shareholders.

The Company will conduct its voting at general meetings by poll where shareholders are accorded rights proportionate to their shareholding and all votes are counted.

The Company does not have a policy on payments of dividends. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate. The Company endeavours to pay dividends and where dividends are not paid, the Company will disclose its reason(s) accordingly.

No dividend will be declared for FY2015 as the Group has made a loss for the financial year and has to be prudent with its cash flow requirements for its business operations, and future developments and expansion.

DEALINGS IN SECURITIES

The Group has adopted an internal compliance code of conduct to provide guidance to its directors, key officers and employees regarding dealings in the Company's securities and implications of Insider Trading (the "Securities Code") in compliance with Rule 1207(19) of the SGX-ST Listing Manual.

In line with the Group's internal compliance code, Directors, key officers and employees of the Group, who have access to price-sensitive and confidential information are not permitted to deal in securities of the Company during the period beginning 1 month and 2 weeks before the date of the announcement of the full year or quarterly results respectively and ending on the date of the announcement of the relevant results. Directors and employees are also advised against dealing in the securities when they are in possession of any unpublished material price-sensitive information of the Group at all times. The Group confirmed that it had adhered to its Securities Code for FY2015.

Directors and key officers are also encouraged not to deal in the Company's securities on short-term considerations.

INTERESTED PERSON TRANSACTIONS ("IPT")

The Group had adopted an internal policy governing procedures for the identification, approval and monitoring of IPT. All IPT are subject to review by the AC at its quarterly meetings to ensure that such transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders.

The AC with the concurrence of the Board, confirmed that there were no IPTs for FY2015 pursuant to the disclosure under Rule 920 of the SGX-ST Listing Manual as follows:

Name of interested person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than S$100,000 and transactions conducted under Shareholders' Mandate pursuant to Rule 920 of the SGX-ST Listing Manual)	Aggregate value of all interested person transactions, conducted under the Shareholders' Mandate during the financial year under review (excluding transactions less than S$100,000) pursuant to Rule 920 of the SGX-ST Listing Manual
Nil	Nil	Nil

The Group does not have a general mandate from shareholders for IPTs.

MATERIAL CONTRACTS

Since the end of the previous financial year, the Group did not enter into any material contracts involving the interests of the CEO, Directors or Controlling Shareholders and no such material contracts subsist at the end of the financial year, save for the Service Agreements entered into by these Executive Directors with the Company.

Financial Contents

Report of the Directors

The directors present their report to the members together with the audited consolidated financial statements of China Hongcheng Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the financial year ended 30 June 2015 and the statement of financial position of the Company as at 30 June 2015.

1 Directors

The directors of the Company in office at the date of this report are:

Liu Ming 刘明	(Chairman and Chief Executive Officer)
Zhao Yan 赵岩	(Executive Director)
Cheng Wenliang 成文亮	(Executive Director)
Zhao Wei 赵伟	(Executive Director)
Lu Zemin 卢则敏	(Executive Director)
Wang Hongxia 王红霞	(Executive Director)
Bob Low Siew Sie	(Lead Independent Director)
Chia Seng Hee, Jack	(Independent Director)
Jia Luo 贾罗	(Independent Director)

2 Arrangements to Enable Directors to Acquire Shares or Debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

3 Directors' Interests in Shares or Debentures

Except as disclosed below, no directors who held office at the end of the financial year had interests in shares or debentures of the Company or related corporation either at the beginning or at the end of the financial year.

	Direct Interest		Deemed Interest	
Name of directors	**At beginning of the year**	**At end of the year**	**At beginning of the year**	**At end of the year**
The Company Ordinary shares of HK$0.30 each				
Liu Ming 刘明1	45,020,000	45,020,000	89,060,000	89,060,000
Zhao Yan 赵岩	1,120,000	1,120,000	–	–
Cheng Wenliang 成文亮	1,120,000	1,120,000	–	–
Zhao Wei 赵伟	1,120,000	1,120,000	–	–
Lu Zemin 卢则敏	1,200,000	1,200,000	–	–
Wang Hongxia 王红霞	2,100,000	2,100,000	–	–

There was no change in any of the above-mentioned interests between the end of the financial year and 21 July 2015.

Note:

1 Liu Ming 刘明 is the sole shareholder and director of Yorkworth Limited. He is deemed interested in the 89,060,000 shares held by Yorkworth Limited in trust for 573 employees of the Group pursuant to a trust deed dated 27 June 2007. None of these employees are related to the directors or substantial shareholders of the Company.

4 Directors' Contractual Benefits

Since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in the accompanying financial statements. Certain directors also received remuneration from related corporations in their capacity as directors or executives of those related corporations.

5 Options Granted

During the financial year, no options to take up unissued shares of the Company or its subsidiaries were granted.

6 Options Exercised

During the financial year, there were no shares of the Company or its subsidiaries issued by virtue of the exercise of options to take up unissued shares.

7 Options Outstanding

At the end of the financial year, there were no unissued shares of the Company or its subsidiaries under options.

8 Audit Committee

The Audit Committee ("AC") comprises three non-executive directors who are also independent directors. The members of the AC are:

Bob Low Siew Sie	(Chairman)
Chia Seng Hee, Jack	
Jia Luo 贾罗	

The AC carried out its functions in accordance with the Listing Manual of the Singapore Exchange Securities Trading Limited and the Code of Corporate Governance.

The AC has reviewed the overall scope of both internal and external audits and the representations given by Management to internal and external auditors. The AC has also met with the Company's internal and external auditors for FY2015 to discuss the results of their respective findings and their evaluation of the Company's system of internal accounting controls, where applicable and separately without the presence of Management. Details on the duties and functions carried out by the AC, adequacy and effectiveness of the internal controls and internal audit during the financial year ended 30 June 2015 are set out on pages 28 to 33 of the Corporate Governance Report.

The AC has recommended to the Board of Directors the re-appointment of Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, as auditors of the Company at the forthcoming Annual General Meeting.

9 Independent Auditors

The auditors, Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, have expressed their willingness to accept re-appointment.

On behalf of the Board of Directors,

Liu Ming 刘明
Executive Chairman and Chief Executive Officer

Zhao Yan 赵岩
Executive Director

18 November 2015

Statement by the Directors

In the opinion of the directors,

(a) the accompanying consolidated financial statements of the Group and the statement of financial position of the Company as set out on pages 43 to 87 are drawn up so as to give a true and fair view of the financial positions of the Group and of the Company as at 30 June 2015 and the financial performance, changes in equity and cash flows of the Group for the year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Group and the Company will be able to pay their debts as and when they fall due as disclosed in Note 2(b) to the financial statements.

On behalf of the Board of Directors,

Liu Ming 刘明
Executive Chairman and Chief Executive Officer

Zhao Yan 赵岩
Executive Director

18 November 2015

Independent Auditors' Report

To the Members of China Hongcheng Holdings Limited
(Incorporated in Bermuda with Limited Liability)

Report on the Financial Statements

1. We were engaged to audit the accompanying financial statements of China Hongcheng Holdings Limited (the "Company") and its subsidiaries (collectively the "Group"), as set out on pages 43 to 87, which comprise the statements of financial position of the Group and of the Company as at 30 June 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

3. Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Cost of Sales

4. Included in cost of sales in the consolidated statement of comprehensive income were certain cost of inventories sold amounting to RMB151,852,000. Due to the lack of documentation and incomplete accounting records, we were unable to carry out the necessary audit procedures, nor were we able to perform alternative audit procedures, to satisfy ourselves as to the validity and appropriateness of these amounts that have been included in cost of sales in the consolidated statement of comprehensive income for the current financial year ended 30 June 2015. Consequently, we were unable to determine whether any adjustments, if any, to these amounts were necessary.

Going Concern Assumption

5. (i) As disclosed in Note 2(b) to the financial statements, the Group incurred a net loss and total comprehensive loss of RMB237,831,000 (2014: RMB77,543,000) for the financial year ended 30 June 2015, and as at that date, the Group's and the Company's current liabilities exceeded their current assets by RMB575,675,000 (2014: RMB385,671,00) and RMB15,984,000 (2014: RMB11,786,000) respectively and the Group and the Company have a deficit in shareholders' fund of RMB90,698,000 and RMB15,984,000 (2014: surplus in shareholders' fund of RMB147,133,000 and RMB122,367,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt as to the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

Going Concern Assumption (cont'd)

(ii) The financial statements have been prepared on the assumption that the Group and the Company will continue as going concerns. Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements for the next twelve months ending 30 June 2016 and to pay its debts as and when they fall due. The forecast was prepared on the basis that the Group's bankers will continue to provide financing and extend existing bank loans to the Group, as well as the ability of the Group to generate positive cash flows from its operations. This assumption is premised on future events, the outcome of which is inherently uncertain.

(iii) In view of the material uncertainties as discussed above, we are unable to obtain sufficient appropriate audit assurance regarding the use of the going concern assumption in the preparation of the financial statements. Accordingly, we are unable to form a view as to the use of the going concern assumption in the preparation of these financial statements.

(iv) In the event the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the ordinary course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the ordinary course of business and at amounts which could differ from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.

Disclaimer of Opinion

6. Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs 4 and 5, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and accordingly, we do not express an opinion on the financial statements.

Moore Stephens LLP
Public Accountants and
Chartered Accountants

Singapore

18 November 2015

Consolidated Statement of Comprehensive Income

For the financial year ended 30 June 2015

	Note	2015 RMB'000	2014 RMB'000
Revenue	4	**289,443**	383,930
Cost of sales		**(462,945)**	(397,112)
Gross loss		**(173,502)**	(13,182)
Other income	5	**6,405**	9,388
Selling and distribution expenses		**(5,656)**	(4,785)
Administrative expenses		**(22,814)**	(27,356)
Other operating expenses		**(2,241)**	9,189
Finance costs	6	**(40,023)**	(50,763)
Loss before income tax	7	**(237,831)**	(77,509)
Income tax	8	**–**	(34)
Loss for the year		**(237,831)**	(77,543)
Other comprehensive income		**–**	–
Total comprehensive loss for the year attributable to the equity holders of the Company		**(237,831)**	(77,543)
Loss per share attributable to the equity holders of the Company (RMB cents)			
- Basic and diluted	9	**(88.74)**	(28.93)

The accompanying notes form an integral part of these financial statements

Statements of Financial Position

As at 30 June 2015

	Note	Group 2015 RMB'000	Group 2014 RMB'000	Company 2015 RMB'000	Company 2014 RMB'000
ASSETS					
Non-Current Assets					
Property, plant and equipment	10	**480,797**	528,710	**–**	–
Land use rights	11	**5,302**	5,441	**–**	–
Investment in subsidiaries	12	**–**	–	**–**	134,153
		486,099	534,151	**–**	134,153
Current Assets					
Inventories	13	**59,446**	247,827	**–**	–
Trade and bills receivables	14	**35,487**	53,266	**–**	–
Other receivables and prepayments	15	**37,637**	48,904	**–**	–
Due from subsidiaries	12	**–**	–	**–**	597
Pledged deposits	16	**305,902**	312,650	**–**	–
Cash and bank balances	17	**25,522**	31,209	**–**	–
		463,994	693,856	**–**	597
Total Assets		**950,093**	1,228,007	**–**	134,750
EQUITY AND LIABILITIES					
Share Capital and Reserves					
Share capital	18	**78,438**	78,438	**78,438**	78,438
Reserves	19	**(169,136)**	68,695	**(94,422)**	43,929
Total equity		**(90,698)**	147,133	**(15,984)**	122,367
Non-Current Liabilities					
Government grant	20	**1,122**	1,347	**–**	–
		1,122	1,347	**–**	–
Current Liabilities					
Bank borrowings	21	**914,000**	949,036	**–**	–
Trade payables	22	**7,286**	24,265	**–**	–
Other payables	23	**107,060**	94,485	**15,984**	12,383
Government grant	20	**225**	225	**–**	–
Income tax payable		**11,098**	11,516	**–**	–
		1,039,669	1,079,527	**15,984**	12,383
Total Liabilities		**1,040,791**	1,080,874	**15,984**	12,383
Total Equity and Liabilities		**950,093**	1,228,007	**–**	134,750

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2015

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Exchange translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Group							
Balance as at 1 July 2014	78,438	137,794	(18,488)	33,647	(5,348)	(78,910)	147,133
Loss for the year	–	–	–	–	–	(237,831)	(237,831)
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(237,831)	(237,831)
Balance as at 30 June 2015	78,438	137,794	(18,488)	33,647	(5,348)	(316,741)	(90,698)
Balance as at 1 July 2013	78,438	137,794	(18,488)	33,647	(5,348)	(1,367)	224,676
Loss for the year	–	–	–	–	–	(77,543)	(77,543)
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	–	(77,543)	(77,543)
Balance as at 30 June 2014	78,438	137,794	(18,488)	33,647	(5,348)	(78,910)	147,133

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2015

	Group	
	2015	2014
	RMB'000	RMB'000
Cash Flows from Operating Activities		
Loss before income tax	**(237,831)**	(77,509)
Adjustments for:		
Amortisation of land use rights	**139**	139
Amortisation of government grant	**(225)**	(225)
Depreciation of property, plant and equipment	**47,138**	48,580
(Gain)/Loss on disposal of property, plant and equipment	**(774)**	28
Write-back of allowance for inventory obsolescence	**(3,147)**	(16,677)
Write-off of property, plant and equipment	**–**	4,607
Allowance for inventory obsolescence	**2,180**	1,507
Inventories written down	**2,531**	–
Interest income	**(5,269)**	(8,162)
Interest expense	**40,023**	50,763
Operating cash flows before working capital changes	**(155,235)**	3,051
Changes in working capital:		
Decrease in inventories	**186,817**	19,287
Decrease in trade and bills receivables	**17,779**	6,102
Decrease/(Increase) in other receivables and prepayments	**11,267**	(1,850)
Decrease in trade payables	**(16,979)**	(15,314)
Increase in other payables	**12,575**	20,092
Cash generated from operating activities	**56,224**	31,368
Income tax paid	**(418)**	(414)
Net cash generated from operating activities	**55,806**	30,954
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	**(100)**	(443)
Proceeds from disposal of property, plant and equipment	**1,649**	40
Interest received	**5,269**	8,162
Net cash generated from investing activities	**6,818**	7,759
Cash Flows from Financing Activities		
Proceeds from bank loans	**743,084**	489,420
Repayment of bank loans	**(832,620)**	(561,384)
Proceeds from bills payables	**696,000**	671,500
Repayment of bills payables	**(641,500)**	(555,000)
Increase in pledged deposits	**6,748**	(36,100)
Interest paid	**(40,023)**	(50,763)
Net cash used in financing activities	**(68,311)**	(42,327)
Net decrease in cash and cash equivalents	**(5,687)**	(3,614)
Cash and cash equivalents at the beginning of the year	**31,209**	34,823
Cash and cash equivalents at the end of the year (Note 17)	**25,522**	31,209

The accompanying notes form an integral part of these financial statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements:

1 General

China Hongcheng Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 25 January 2007. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company is listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("SGX-ST").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in Note 12.

The Group's operations are principally conducted in the People's Republic of China (the "PRC") with its principal place of business at Huixian 3 Road North, Zouping Economical Development Zone, Shandong Province, PRC.

The financial statements for the financial year ended 30 June 2015 were authorised for issue in accordance with a resolution of the directors on the date of the Statement by the Directors.

2 Summary of Significant Accounting Policies

(a) Basis of Preparation

The consolidated financial statements of the Group and the statement of financial position of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies set out below.

Adoption of New/Revised IFRS

For the financial year ended 30 June 2015, the Group has adopted the following new or revised standards which are effective and mandatory for application for the year, and relevant to the Group:

		Effective for accounting periods beginning on or after
Amendments to IAS 24	*Related Party Disclosures*	1 July 2014
Amendments to IAS 36	*Recoverable Amount Disclosure for Non-Financial Assets*	1 January 2014
Amendments to IFRS 8	*Operating Segments*	1 July 2014

2 Summary of Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

Adoption of New/Revised IFRS (cont'd)

- The Amendments to IAS 24 that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. As this is a disclosure standard, there was no material impact on the financial performance of the Group or the financial positions of the Group and the Company on adoption of this revised standard.

- The Amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit (CGU) to periods in which an impairment loss has been recognised or reversed.

  The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less costs of disposal. As this is a disclosure standard, there was no material impact on the financial performance of the Group or the financial positions of the Group and Company on adoption of this revised standard.

- The Amendments to IFRS 8 require an entity to disclose the judgement made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly. As this is a disclosure standard, it has no impact on the financial performance and financial position of the Group and the Company.

New/Revised IFRS which are not yet effective

As at the date of authorisation of these financial statements, the following new or revised standards have been issued and are relevant to the Group, but not yet effective:

		Effective for accounting periods beginning on or after
Amendments to IAS 27	*Equity Method in Separate Financial Statements*	1 January 2016
IFRS 15	*Revenue from Contracts with Customers*	1 January 2018
IFRS 9	*Financial Instruments*	1 January 2018
Amendments to IAS 1	*Presentation of Financial Statements: Disclosure Initiative*	1 January 2016

- Amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in the entity's separate financial statements. This is in addition to the accounting policy choice to account for such investments at cost less impairment, or fair value (in accordance with IAS 39), which currently exists and will continue to be available. The Group is in the process of assessing the impact on the financial statements.

2 Summary of Significant Accounting Policies (cont'd)

(a) Basis of Preparation (cont'd)

New/Revised IFRS which are not yet effective (cont'd)

- IFRS 15 sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). IFRS 15 replaces the previous revenue Standards: IAS 18 *Revenue* and IAS 11 *Construction Contracts*, and the related interpretations on revenue recognition; IFRIC 15 *Agreements for the Construction of Real Estate*; IFRIC 18 *Transfers of Assets from Customers*; and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. The Group is currently assessing the impact on the financial statements.

- IFRS 9 was introduced to replace IAS 39 *Financial Instruments: Recognition and measurement*. IFRS 9 changes the classification and measurement requirements for financial assets and liabilities, and also introduces a three-stage impairment model that will impair financial assets based on expected losses regardless of whether objective indicators of impairment have occurred. IFRS 9 also provides a simplified hedge accounting model that will align more closely with companies' risk management strategies. The Group is currently assessing the impact on the financial statements.

- Amendments to IAS 1 provide clarification on various aspects of financial statements presentation. Key clarifications relate to the interpretation of materiality requirements in FRS, extent of aggregation and disaggregation of financial information presented in the primary financial statements, presentation of sub-totals, and ordering of notes to the financial statements. The amendments also clarify that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will be subsequently be reclassified to profit or loss. The Group is in the process of assessing the impact on the financial statements.

(b) Going Concern Assumption

The Group incurred a net loss and total comprehensive loss of RMB237,831,000 (2014: RMB77,543,000) for the financial year ended 30 June 2015, and as at that date, the Group's and the Company's current liabilities exceeded their current assets by RMB575,675,000 (2014: RMB385,671,000) and RMB15,984,000 (2014: RMB11,786,000) respectively and the Group and the Company have a deficit in shareholders' fund of RMB90,698,000 and RMB15,984,000 (2014: surplus in shareholders' fund of RMB147,133,000 and RMB122,367,000) respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's and the Company's ability to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business.

The financial statements have been prepared on the assumption that the Group and the Company will continue as going concerns. Management has prepared a cash flow forecast and is of the view that the Group will have sufficient cash resources to satisfy its working capital requirements for the next twelve months ending 30 June 2015 and to pay its debts as and when they fall due. The forecast was prepared on the basis that the Group's bankers will continue to provide financing and extend existing bank loans to the Group, as well as the ability of the Group to generate positive cash flows from its operations.

2 Summary of Significant Accounting Policies (cont'd)

(b) Going Concern Assumption (cont'd)

In the event the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the ordinary course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the ordinary course of business and at amounts which could differ from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.

(c) Group Accounting

Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual agreements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

2 Summary of Significant Accounting Policies (cont'd)

(c) Group Accounting (cont'd)

Consolidation (cont'd)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Change in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 Summary of Significant Accounting Policies (cont'd)

(c) Group Accounting (cont'd)

Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Investments in Subsidiaries

Investments in subsidiaries are stated at cost less any impairment losses in the statement of financial position of the Company. The carrying amounts of investment in subsidiaries are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

On disposal of investment in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

(e) Foreign Currencies

Functional and presentation currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Renminbi ("RMB"), and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions and balances

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

At the statement of financial position date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date.

Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates at the reporting date are recognised in profit or loss, unless they arise from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations.

2 Summary of Significant Accounting Policies (cont'd)

(e) Foreign Currencies (cont'd)

Transactions and balances (cont'd)

Those currency translation differences are recognised in the translation reserve in the consolidated financial statements and transferred to profit or loss as part of the gain or loss on disposal of the foreign operation.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the exchange rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing exchange rates at the date of that statement of financial position;

- income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) are translated at exchange rates at the dates of the transactions; and

- all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the accumulated currency translation differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any currency translation differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In the case of a partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

(f) Property, Plant and Equipment

Measurement

Property, plant and equipment are stated at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

2 Summary of Significant Accounting Policies (cont'd)

(f) Property, Plant and Equipment (cont'd)

Measurement (cont'd)

Depreciation is recognised so as to write off the cost of property, plant and equipment, other than construction-in-progress, less their residual value of 5% over their estimated useful lives, using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

Leasehold buildings	-	37 years
Plant and machinery	-	13 years
Motor vehicles	-	13 years
Furniture, fixtures and equipment	-	13 years

Construction-in-progress, which represents buildings under construction, and plant and machinery pending installation, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. Construction-in-progress is reclassified to the appropriate category of property, plant and equipment when completed and depreciation of these assets commences when the assets are ready for their intended use.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The residual values, useful lives and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. The effects of any revision are recognised in profit or loss when the changes arise.

Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repairs and maintenance expense in profit or loss during the financial year in which it is incurred.

Disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on 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.

(g) Land Use Rights

Land use rights represent up-front payments to acquire long-term leasehold interests in the usage of land. They are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on a straight-line basis over 46 years. The amortisation period and method are reviewed annually.

2 Summary of Significant Accounting Policies (cont'd)

(h) Impairment of Non-financial Assets

Non-financial assets are tested for impairment whenever there is any objective evidence or indication that these assets have been impaired.

At the statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of impairment loss (if any), on an individual asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group 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 cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Allowance is made for obsolete and slow moving inventories.

2 Summary of Significant Accounting Policies (cont'd)

(j) Financial Assets

The Group's financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than twelve months after the statement of financial position date which are presented as non-current assets. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables are presented as "trade and bills receivables", "other receivables", "due from subsidiaries", "pledged deposits" and "cash and bank balances" on the statement of financial position.

Impairment

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

2 Summary of Significant Accounting Policies (cont'd)

(k) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in bank and deposit balances that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, less those deposit balances that are pledged to secure banking facilities.

(l) Financial Liabilities

The Group's financial liabilities include bank borrowings, trade payables, and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least twelve months after the statement of financial position date.

Other financial liabilities

Other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(m) Share Capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium reserve to the extent they are incremental costs directly attributable to the equity transaction.

(n) Revenue Recognition

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of business, less value added tax, rebates and discounts and after eliminating sales within the Group.

2 Summary of Significant Accounting Policies (cont'd)

(n) Revenue Recognition (cont'd)

Sale of goods (cont'd)

Revenue from the sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer, which generally coincides with delivery and acceptance of the goods sold.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(o) Government Grant

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

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(p) Employee Benefits

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group contributes a certain percentage of the basic salaries of their employees to state-managed retirement benefit schemes to fund their retirement benefits. The Group has no further obligations with respect to the defined contribution plans other than to pay the ongoing required contributions under the defined contribution plans. Contributions under defined contribution plans are charged to profit or loss as incurred.

(q) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset, 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 the assets are substantially ready for their intended use or sale. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

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

2 Summary of Significant Accounting Policies (cont'd)

(r) Leases

Lessee - operating leases

Leases where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

(s) Income Tax

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the statement of financial position date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to recognised the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

2 Summary of Significant Accounting Policies (cont'd)

(s) Income Tax (cont'd)

Deferred tax (cont'd)

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

Deferred tax 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 realised, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the statement of financial position date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, as at the statement of financial position date, to recover or settle the carrying amount of its assets and liabilities.

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

The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at the date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or in profit or loss.

Current and deferred tax for the year

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in the accounting for the business combination.

(t) Segment Reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

3 Critical Judgements and Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to exercise judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the statement of financial position date and the reported amounts of revenue and expenses during the financial year. Although these judgements and estimates are based on historical experience and other relevant factors, including management's expectation of future events that are believed to be reasonable under the circumstances, actual results may ultimately differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

(a) Critical Judgements in Applying Accounting Policies

In addition to the going concern assumption disclosed in Note 2(b), in the process of applying the Group's accounting policies, the application of judgements that are expected to have a significant effect on the amounts recognised in the financial statements are discussed below.

(i) Impairment of non-financial assets

The Group and the Company assess at each statement of financial position date whether there is any indication that non-financial assets may be impaired. If any such indication exists, the Group and the Company estimate the recoverable amount of the assets in accordance with the accounting policy stated in Note 2(h). In assessing whether there is any indication that non-financial assets may be impaired, the Group and the Company consider indications from both internal and external sources of information such as evidence of obsolescence or decline in economic performance of the assets, changes in market conditions, economic environment and customers' tastes. These assessments are subjective and require management's judgements and estimations.

Further details are disclosed in Notes 10 and 12.

(ii) Impairment of inventories

Management reviews the condition of the inventories of the Group and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the estimated selling price in the ordinary course of business less the estimated costs of completion and the historical experience of selling products of similar nature. The Group carries out an inventory review at each statement of financial position date and makes allowance for obsolete and slow-moving items and/or writes down inventories to its net realisable value.

During the financial year, the Group recognised an allowance for inventory obsolescence of RMB2,180,000 (2014: RMB1,507,000) (Note 7). In addition, certain inventories were written down by RMB2,531,000 (2014: Nil) to its net realisable value as at 30 June 2015 (Note 7). The carrying amount of the Group's inventories is disclosed in Note 13.

3 Critical Judgements and Accounting Estimates (cont'd)

(a) Critical Judgements in Applying Accounting Policies (cont'd)

(iii) Impairment of trade receivables

Management assesses the collectability of trade and other receivables regularly. This estimate is based on the credit history of the Group's customers and the current market conditions. Management reassesses the allowance for impairment loss at each statement of financial position date.

The carrying amount of the Group's trade receivables and movement in allowance for impairment loss of trade receivables is disclosed in Note 14.

(iv) Provision for income tax expense

The Group is subject to various taxes in the PRC including corporate income tax. Significant judgement is required in determining the amount of the provision for taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Key Sources of Estimation Uncertainty

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

Useful life of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment, other than construction-in-progress, is depreciated on a straight-line basis over the property, plant and equipment's estimated useful lives.

Management estimates the useful lives of these property, plant and equipment to be within 13 to 37 years. These are common life expectancies applied in these industries. Changes in the expected level of usage and technological developments could impact the economic useful lives of these assets. Hence, future depreciation charges could be revised. The carrying amount of property, plant and equipment (excluding construction-in-progress) of the Group as at 30 June 2015 amounted to RMB480,797,000 (2014: RMB527,608,000). If depreciation on property, plant and equipment increase/decrease by 10% from management's estimate, the Group's loss for the year will increase/decrease by approximately RMB4,714,000 (2014: RMB4,858,000).

4 Revenue

Revenue by products from the Group's principal activities recognised during the financial year is as follows:

	Group	
	2015	**2014**
	RMB'000	**RMB'000**
Sale of goods		
Grey and dyed cotton fabrics	**72,650**	99,450
Jacquard cotton fabrics	**147,715**	193,658
Grey cotton yarns	**35,749**	56,657
Bed linen sets	**33,329**	34,165
	289,443	383,930

5 Other Income

	Group	
	2015	2014
	RMB'000	RMB'000
Amortisation of government grant	**225**	225
Finance income - interest income on pledged deposits and bank balances	**5,269**	8,162
Gain on disposal of property, plant and equipment	**774**	–
Others	**137**	1,001
	6,405	9,388

6 Finance Costs

	Group	
	2015	2014
	RMB'000	RMB'000
Interest expense on		
-bank borrowings	**40,023**	50,763

7 Loss before Income Tax

	Group 2015 RMB'000	Group 2014 RMB'000
Loss before income tax has been arrived at after charging/(crediting):		
Amortisation of land use rights - recognised in cost of sales	**139**	139
Audit fees		
- auditors of the Company	**899**	954
- other auditors	**155**	135
Depreciation of property, plant and equipment		
- recognised in cost of sales	**45,328**	46,800
- recognised in administrative expenses	**1,810**	1,780
	47,138	48,580
Employee benefits (including directors' remuneration):		
- staff salaries and benefits	**44,603**	52,045
- defined contribution plans	**8,531**	9,660
	53,134	61,705
Directors' fees - the Company	**670**	670
Operating lease expense	**95**	93

	Group 2015 RMB'000	Group 2014 RMB'000
Loss before income tax has been arrived at after charging/(crediting): (cont'd)		
Other operating expenses included:		
- allowance for inventory obsolescence	**2,180**	1,507
- Inventories written down to net realisable value	**2,531**	–
- write-back of allowance for inventory obsolescence*	**(3,147)**	(16,677)
- write-off of property, plant and equipment	**–**	4,607
- realised foreign exchange losses	**299**	1,147
- loss on disposal of property, plant and equipment	**–**	28

* The write-back of allowance for inventory obsolescence is due to sale of certain inventories, of which allowance for inventory obsolescence was made previously, during the financial year.

There were no non-audit fees paid/payable to the Company's auditors during the financial year (2014: Nil).

Employee benefits incurred by the Group recognised in costs of sales, selling and distribution expenses and administrative expenses were approximately RMB42,920,000 (2014: RMB48,290,000), RMB1,257,000 (2014: RMB1,373,000) and RMB8,957,000 (2014: RMB12,042,000), respectively, during the financial year.

8 Income Tax

	Group	
	2015	2014
	RMB'000	RMB'000
Current income tax	**–**	34

A reconciliation of income tax expense and loss before income tax multiplied by the applicable tax rates in each jurisdiction the Group operates is as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Loss before income tax	**(237,831)**	(77,509)
Income tax at applicable tax rate	**(58,167)**	(18,018)
Non-deductible expenses	**1,178**	1,528
Non-taxable income	**(980)**	(4,647)
Deferred tax assets not recognised	**57,969**	21,247
Utilisation of deferred tax benefits previously not recognised	**–**	(76)
	–	34

The non-taxable income/non-deductible expenses for the current/previous financial year mainly relate to write-back of allowance for inventory obsolescence/allowance for inventory obsolescence/inventories written down which is not taxable/deductible for tax purpose.

The Group's subsidiaries in the PRC are subject to the PRC corporate tax rate of 25% (2014: 25%). The remaining entities of the Group operating in other jurisdictions have either no taxable profits or are exempted.

As at 30 June 2015, the Group has unutilised tax losses of approximately RMB426,661,000 (2014: RMB194,785,000) which can be carried forward and used to offset against future taxable income subject to agreement by the tax authorities in the tax jurisdiction of the relevant group entities. The deferred tax assets arising from the unutilised tax losses of approximately RMB106,665,000 (2014: RMB48,696,000) have not been recognised in accordance with the Group's accounting policy in Note 2(s).

No deferred tax liability has been recognised for withholding taxes that would be payable on the undistributed earnings of the Group's subsidiaries in the PRC in accordance with the relevant tax regulations, as these subsidiaries have no distributable earnings owing to their accumulated losses as at 30 June 2015 and 2014.

9 Loss per Share

The calculation of basic loss per share is based on the loss for the year attributable to the equity holders of the Company of approximately RMB237,831,000 (2014: RMB77,543,000) and on 268,000,000 ordinary shares (2014: 268,000,000 ordinary shares) in issue during the financial year.

Diluted loss per share is the same as basis loss per share as there were no potential dilutive ordinary shares as at 30 June 2015 and 2014.

10 Property, Plant and Equipment

	Construction-in-progress RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Fixtures and equipment RMB'000	Total RMB'000
Group						
2015						
Cost						
Balance at 1 July 2014	1,102	340,676	577,923	2,898	221	922,820
Additions	–	–	56	–	44	100
Transfer from/(to)	(1,102)	1,005	–	–	97	–
Disposals	–	–	(15,820)	–	–	(15,820)
Balance at 30 June 2015	–	341,681	562,159	2,898	362	907,100
Accumulated depreciation						
Balance at 1 July 2014	–	50,322	342,398	1,240	150	394,110
Depreciation for the year	–	8,746	38,142	212	38	47,138
Disposals	–	–	(14,945)	–	–	(14,945)
Balance at 30 June 2015	–	59,068	365,595	1,452	188	426,303
Carrying amount						
Balance at 30 June 2015	–	282,613	196,564	1,446	174	480,797
2014						
Cost						
Balance at 1 July 2013	6,552	339,907	578,766	2,898	221	928,344
Additions	84	–	359	–	–	443
Transfer from/(to)	(5,534)	5,376	158	–	–	–
Write-off	–	(4,607)	–	–	–	(4,607)
Disposals	–	–	(1,360)	–	–	(1,360)
Balance at 30 June 2014	1,102	340,676	577,923	2,898	221	922,820
Accumulated depreciation						
Balance at 1 July 2013	–	41,574	304,086	1,028	134	346,822
Depreciation for the year	–	8,748	39,604	212	16	48,580
Disposals	–	–	(1,292)	–	–	(1,292)
Balance at 30 June 2014	–	50,322	342,398	1,240	150	394,110
Carrying amount						
Balance at 30 June 2014	1,102	290,354	235,525	1,658	71	528,710

All property, plant and equipment held by the Group are located in the PRC.

Certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB145,539,000 (2014: RMB156,972,000) were pledged as security for the Group's bank facilities as disclosed in Note 21.

10 Property, Plant and Equipment (cont'd)

Allowance for impairment loss

In view of the Group's continued operating losses, management has carried out an assessment to determine whether the Group's property, plant and equipment (including land use rights) are impaired. As part of the assessment, the Group has engaged an independent firm of valuers in the PRC to determine the fair value of these property, plant and equipment (excluding fixtures and equipment which are not significant) and land use rights as at 30 June 2015. Based on the valuation report dated 29 September 2015, the fair value (i.e. the recoverable amount) of the aforesaid assets is higher than the carrying amount, and accordingly, based on management's judgement no allowance for impairment loss is necessary as at the statement of financial position date.

Building ownership certificates not obtained

As at 30 June 2015, the Group has not yet obtained the building ownership certificates of certain of its leasehold buildings with an aggregate carrying amount of approximately RMB7,918,000 (2014: RMB8,139,000). These leasehold buildings are situated on lands for which the relevant land use rights have already been obtained by the Group. Based on previous advice obtained from the Group's PRC lawyers and in the opinion of the directors of the Company, the Group has obtained the right to use these leasehold buildings notwithstanding the building ownership certificates have not been obtained.

11 Land Use Rights

	Group	
	2015	2014
	RMB'000	RMB'000
Cost		
Balance at beginning and end of the year	**6,744**	6,744
Accumulated amortisation		
Balance at beginning of the year	**(1,303)**	(1,164)
Amortisation for the year	**(139)**	(139)
Balance at end of the year	**(1,442)**	(1,303)
Carrying amount		
Balance at end of the year	**5,302**	5,441

Land use rights represent leasehold interests in land, which is located in Shandong Province, PRC with lease terms expiring in 2053.

Certain land use rights with an aggregate carrying amount of approximately RMB5,302,000 (2014: Nil) were pledged as security for the Group's banking facilities as disclosed in Note 21.

12 Investment in Subsidiaries

	Company	
	2015	2014
	RMB'000	RMB'000
Unquoted equity shares, at cost	**244,226**	244,226
Less: Allowance for impairment loss	**(244,226)**	(110,073)
	–	134,153

Movement in the allowance for impairment loss during the financial year is as follows:

	Company	
	2015	2014
	RMB'000	RMB'000
Balance at beginning of the year	**110,073**	35,908
Allowance during the year	**134,153**	74,165
Balance at end of the year	**244,226**	110,073

Allowance for impairment loss

In view of the Group's continued significant operating losses and negative net assets value, management has carried out an assessment to determine whether the Company's investment in subsidiaries is impaired, and consequently, an allowance for impairment loss was made, amounting to approximately RMB244,226,000 (2014: RMB110,073,000), to fully write down the carrying amount of the Company's investment in subsidiaries to Nil as at the statement of financial position date based on management's judgement that the investment will not be recoverable.

12 Investment in Subsidiaries (cont'd)

Details of the subsidiaries are as follows:

Name of subsidiaries	Principal activities/Country of incorporation and operations	The Company's cost of investment 2015 RMB'000	The Company's cost of investment 2014 RMB'000	Equity interest attributable to the Group 2015 %	Equity interest attributable to the Group 2014 %
Direct subsidiary of the Company					
Willgreat Group Limited	Investment holding British Virgin Islands	**244,226**	244,226	**100**	100
Indirect subsidiaries of the Company					
Shandong Hongcheng Hometex Co., Ltd (山东宏诚家纺有限公司)	Manufacture and sale of textile products People's Republic of China			**100**	100
Zouping Yika Hometex Co., Ltd (邹平亿家家纺有限公司)	Intended: Manufacture and sale of household textile products. Presently dormant People's Republic of China			**100**	100
Harvest Vantage Limited	Intended: Sales and marketing agent. Presently dormant British Virgin Islands			**100**	100

All the subsidiaries are audited by Moore Stephens LLP, Singapore for the purpose of consolidation of the Group.

13 Inventories

	Group 2015 RMB'000	Group 2014 RMB'000
At cost and net realisable value:		
Raw materials	**12,428**	22,436
Work in progress - Grey cotton yarns	**6,308**	75,581
Work in progress - Other products	**4,266**	88,107
Finished goods	**36,444**	61,703
	59,446	247,827
Cost of inventories sold recognised as cost of sales in the consolidated statement of comprehensive income	**462,945**	397,112

14 Trade and Bills Receivables

	Group	
	2015	2014
	RMB'000	RMB'000
Trade receivables	**48,301**	59,518
Bills receivables	**5,276**	11,838
	53,577	71,356
Less: Allowance for impairment loss	**(18,090)**	(18,090)
	35,487	53,266

Trade and bills receivables are non-interest bearing and are usually due within 5 - 180 days.

Movement in the allowance for impairment loss on trade receivables:

	Group	
	2015	2014
	RMB'000	RMB'000
Balance at beginning and end of the year	**18,090**	18,090

15 Other Receivables and Prepayments

	Group	
	2015	2014
	RMB'000	RMB'000
Prepayments	**–**	2,972
Due from a related party	**793**	552
Other receivables	**5,174**	3,182
Advances to suppliers	**31,670**	42,198
	37,637	48,904

The amount due from a related party is non-trade, unsecured, interest-free and repayable on demand in cash.

As at the financial year end, the Group has made advances to certain suppliers of the Group for supply of raw materials over an average period of 6 months for production. In the event the suppliers are not being able to fulfill these orders, any unutilised advances are repayable to the Group. The Group does not hold any collateral over these purchase deposits.

16 Pledged Deposits

The Group's time deposits of approximately RMB305,902,000 (2014: RMB312,650,000) are pledged to secure the Group's banking facilities as disclosed in Note 21. These pledged deposits with maturity periods of 6 to 12 months (2014: 6 months) have effective interest rates which ranged from 0.35% to 2.85% (2014: 0.35% to 3.05%) per annum.

17 Cash and Bank Balances

	Group	
	2015	2014
	RMB'000	RMB'000
Cash on hand	**173**	115
Cash in banks	**25,349**	31,094
Cash and cash equivalents per consolidated statement of cash flows	**25,522**	31,209

18 Share Capital

	Group and Company			
	2015		2014	
	Number of ordinary shares	**Share capital**	Number of ordinary shares	Share capital
	'000	**RMB'000**	'000	RMB'000
Authorised:				
Ordinary shares of HK$0.30 each At the beginning and end of the year	**600,000**	**175,896**	600,000	175,896
Issued and paid-up:				
Ordinary shares of HK$0.30 each At the beginning and end of the year	**268,000**	**78,438**	268,000	78,438

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company.

19 Reserves

		Group		Company	
	Note	**2015**	2014	**2015**	2014
		RMB'000	RMB'000	**RMB'000**	RMB'000
Share premium	(a)	**137,794**	137,794	**137,794**	137,794
Merger reserve	(b)	**(18,488)**	(18,488)	**34,364**	34,364
Statutory reserve	(c)	**33,647**	33,647	**–**	–
Exchange translation reserve	(d)	**(5,348)**	(5,348)	**–**	–
Accumulated losses		**(316,741)**	(78,910)	**(266,580)**	(128,229)
		(169,136)	68,695	**(94,422)**	43,929

The movements in the Group's reserves during the financial year are set out in the consolidated statement of changes in equity.

(a) Share Premium

The share premium represents the excess of the issue price over the past value of the shares issued, net of share issue expenses. Under the by-laws of the Company, the share premium account is non-distributable.

(b) Merger Reserve

The merger reserve represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the restructuring exercise over the nominal value of the shares of the Company issued in exchange thereof.

(c) Statutory Reserve

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of their profit after taxation prepared in accordance with the accounting regulations in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital.

(d) Exchange Translation Reserve

The exchange translation reserve is used to record foreign exchange differences arising from the translation of the financial statements of group entities whose functional currencies are different from that of the Group's presentation currency.

20 Government Grant

	Group	
	2015	2014
	RMB'000	RMB'000
Balance at beginning of the year	**1,572**	1,797
Amortisation for the year	**(225)**	(225)
Balance at end of the year	**1,347**	1,572
Less: Portion presented as current liabilities	**(225)**	(225)
Portion presented as non-current liabilities	**1,122**	1,347

During the financial year ended 30 June 2011, a government grant of approximately RMB2,472,000 was granted to a subsidiary of the Group by the PRC local government. The purpose of the government grant was to subsidise the subsidiary's acquisition of plant and machinery. The grant was recognised in profit or loss on a straight-line basis over the estimated useful lives of the related assets acquired. There were no unfulfilled conditions or contingencies attached to the government grant.

21 Bank Borrowings

		Group	
	Note	**2015**	2014
		RMB'000	RMB'000
Current liabilities:			
Bank loans, secured	(a)(i)	**30,000**	50,000
Bank loans, guaranteed	(a)(ii)	**203,000**	384,536
Bank loans, secured and guaranteed	(a)(iii)	**200,000**	88,000
	(a)	**433,000**	522,536
Other bank borrowings - Bills payables	(b)	**481,000**	426,500
		914,000	949,036

(a) Analysis of Bank Loans

	Group	
	2015	2014
	RMB'000	RMB'000
Carrying amount of bank loans based on the scheduled repayment which contain a repayment on demand clause (included under current liabilities):		
Within 1 year	**383,000**	511,000
Between 2 to 5 years	**–**	–
	383,000	511,000

21 Bank Borrowings (cont'd)

(a) Analysis of Bank Loans (cont'd)

(i) The bank loans were granted to the Group's subsidiary, Shandong Hongcheng Hometex Co., Ltd ("Hongcheng Hometex"), and are secured on certain of the Group's property, plant and equipment (Note 10) and land use rights (Note 11).

(ii) The bank loans were granted to the Group's subsidiaries, Hongcheng Hometex, of approximately RMB185,000,000 (2014: RMB B371,536,000) and Zouping Yika Hometex Co., Ltd amounted of approximately RMB18,000,000 (2014: RMB13,000,000), and are guaranteed by certain independent third parties and a related party which has a common director/shareholder with the Company.

(iii) The bank loans were granted to Hongcheng Hometex and are secured on certain of the Group's property, plant and equipment (Note 10) and land use rights (Note 11) and are guaranteed by certain independent third parties.

The Group's bank loans incurred interest which ranged from 5.1% to 10.2% (2014: 5.5% to 8.4%) per annum.

Breach of financial covenant

As at the previous financial year ended 30 June 2014, Hongcheng Hometex had breached certain financial covenants of two short-term bank loans of RMB43,000,000 (presented under current liabilities) that requires the entity's debt ratio not to be higher than 70%/75%. Subsequently, the relevant banks had granted a waiver to Hongcheng Hometex in relation to the breach of the financial covenants. These bank loans were fully repaid during the current financial year ended 30 June 2015.

(b) Analysis of Other Bank Borrowings

Other bank borrowings which relate to bills payables are interest-free and secured by the Group's pledged deposits (Note 16) and guaranteed by certain independent third parties. These bills payables have maturity periods of up to 6 to 12 months (2014: 6 months).

22 Trade Payables

	Group	
	2015	2014
	RMB'000	RMB'000
Third parties	**7,286**	24,265

Trade payables are non-interest bearing and are usually settled within 30 - 90 days.

23 Other Payables

	Group		Company	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued liabilities:				
- salaries	**13,239**	12,412	**13,210**	12,383
- social insurances	**32,983**	23,798	**–**	–
- trade union funds	**10,974**	10,156	**–**	–
- staff education fees	**5,380**	5,430	**–**	–
- new staff training fees	**2,226**	2,226	**–**	–
- other accrued expenses	**3,438**	2,288		–
	68,240	56,310	**13,210**	12,383
Advances from customers	**13,603**	15,501	**–**	–
VAT and other tax payables	**10,292**	9,684	**–**	–
Due to a third party – construction expenditure	**2,955**	2,955	**–**	–
Due to subsidiary	**–**	–	**2,774**	–
Other payables	**11,970**	10,035	**–**	–
	107,060	94,485	**15,984**	12,383

Accrued salaries mostly relate to past salaries which remain unpaid to certain executive directors of the Company and these balances are unsecured, interest-free and repayable on demand in cash.

Accrued social insurances include amounts totalling RMB11,749,000 (2014: RMB6,505,000) collected from retired employees of the Group for payment on behalf to a local municipal government retirement benefits scheme in the PRC.

Amount due to subsidiary is unsecured, non-trade in nature, interest free and repayable on demand.

24 Operating Lease Commitments/Letters of Credit

(a) Operating lease commitments

	Group	
	2015	2014
	RMB'000	RMB'000
Minimum lease payments under operating leases and recognised as an expense during the financial year	**95**	93

24 Operating Lease Commitments/Letters of Credit (cont'd)

(a) Operating lease commitments (cont'd)

As at the statement of financial position date, the Group has outstanding commitments under non-cancellable operating leases for office premise, that do not contain renewal options or restrictions imposed,which fall due as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Within 1 year	**95**	95

(b) Letters of credit

As at the statement of financial position date, the Group had the following letters of credit, denominated in United States dollar, not provided for in the financial statements:

	Group	
	2015	2014
	RMB'000	RMB'000
Letters of credit	**–**	16,502

These letters of credit were for the purchase of raw materials and had maturity periods up to two months.

25 Related Party Transactions

A related party is defined as follows:

(a) A person or a close member of that person's family is related to a the Company if that person:

(i) Has control or joint control over the Company;

(ii) Has significant influence over the Company; or

(iii) Is a member of the key management personnel of the Company.

(b) An entity is related to the Company if any of the following conditions apply:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).

25 Related Party Transactions (cont'd)

(b) An entity is related to the Company if any of the following conditions apply: (cont'd)

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of one third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the financial year on terms agreed between the parties:

(i) Transactions with related parties

	Group	
	2015	2014
	RMB'000	RMB'000
With related parties		
Bank loans guaranteed by related party	**30,000**	18,000
Purchase of property, plant and equipment	**–**	359

(ii) Compensation of key management personnel

The remuneration of directors and other key management personnel during the financial year is as follows:

	Group	
	2015	2014
	RMB'000	RMB'000
Directors' fees	**670**	670
Salaries and benefits	**2,710**	2,940
Defined contribution plans	**47**	45
	3,427	3,655
Comprised amounts paid/payable to:		
Directors of the Company	**2,809**	3,038
Other key management personnel	**618**	617
	3,427	3,655

26 Segment Information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is the manufacture and sale of cotton products. The Group's assets, liabilities and capital expenditure are principally attributable to this business component.

Revenue from external customers for each product category, are disclosed in Note 4.

The Group's revenues from external customers are divided into the following geographical areas:

	Revenue from external customers	
	2015	2014
	RMB'000	RMB'000
The PRC	**207,571**	300,330
United States of America	**24,582**	2,287
Europe	**24,407**	25,091
Others	**32,883**	56,222
	289,443	383,930

The geographical location of customers is based on the location at which the goods are delivered.

The geographical location of non-current assets is based on the physical location of the assets.The Company is an investment holding company where the Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by IFRS 8 "Operating Segments". All assets and operations of the Group are located in the PRC, and accordingly, no segmental analysis of segment assets is presented.

Information about major customers

Included in revenue arising from the PRC segment of approximately RMB207.6 million (2014: RMB300.3 million) are revenue of approximately RMB46.8 million (2014: RMB40.0 million) which arose from sales to the Group's largest customer.

27 Financial Instruments

(a) Financial Risk Management Objectives and Policies

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations. The financial risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

The Group does not have written risk management policies and guidelines. Generally, the Group employs conservative strategies regarding its risk management. Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors periodically. The overall objectives in managing financial risks focus on securing the Group's short to medium-term cash flows by minimising its exposure to financial markets. As the Group's exposure to market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk are kept at a minimum level, the Group has not used any derivative or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. There has been no change to the Group's exposure to these financial risks to the manner in which it manages and measures the risk. The most significant financial risks to which the Group is exposed are discussed below.

As at the statement financial position date, the Group's and the Company's financial instruments mainly consist of cash and bank balances, pledged deposits, trade and bills receivables, other receivables and deposits, amounts due from subsidiaries, trade payables, other payables and bank borrowings.

(i) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group.

The Group's credit risk is primarily attributable to trade and bills receivables, other receivables and deposits, pledged deposits and cash and bank balances. Management has a credit policy and the exposures to credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers. As at 30 June 2015, 87% (2014: 73%) of the Group's trade receivables are due from 3 customers (2014: 3 customers).

The credit risk on pledged deposits and cash and bank balances is limited because the Group's bank balances are deposited with major banks in the PRC and Hong Kong.

The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(i) Credit risk (cont'd)

Financial assets that are neither past due nor impaired

Trade, bills and other receivables that are neither past due nor impaired at the statement of financial position date are substantially creditworthy companies or individuals with a good collection record with the Group. Bank deposits that are neither past due nor impaired are placed with reputable financial institutions with high credit ratings and no history of default.

As at 30 June 2015, trade, bills and other receivables that are neither past due nor impaired amounted to RMB51,008,000 (2014: RMB71,512,000).

Management considered the amounts due from subsidiaries included in the Company's current assets to have low credit risk.

Financial assets that are past due and/or impaired

There is no other material class of financial assets that is past due and/or impaired except for trade receivables. The table below is an analysis of trade receivables as at the statement of financial position date:

	Group	
	2015	2014
	RMB'000	RMB'000
Trade receivables:		
Past due but not impaired	**22,116**	27,686
Aging of trade receivables that are past due but not impaired:		
Past due less than 30 days	**3,085**	9,873
Past due more than 30 days but less than 180 days	**10,218**	16,008
Past due more than 180 days	**8,813**	1,805
	22,116	27,686
Impaired trade receivables - individually assessed		
Past due more than 12 months	**18,090**	18,090
Less: Allowance for impairment loss	**(18,090)**	(18,090)
	–	–

Trade receivables which are impaired as at the statement of financial position date relate to debts that were outstanding for more than one year and management assessed that only a limited amount of receivables is expected to be recovered. The Group does not hold any collateral for these balances. The movement in the allowance for impairment of trade receivables is set out in Note 14.

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(ii) Foreign currency risk

Foreign currency risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group mainly operates in the PRC and is exposed to foreign currency risk when transactions are denominated in currencies other than RMB. The currencies giving rise to this risk are primarily the Hong Kong dollar (HKD) and United States dollar (USD).

The Group does not use derivative financial instruments to hedge its foreign currency risk. The Group reviews its foreign currency exposures regularly and considers hedging significant foreign currency exposure should the need arise.

The Group's foreign currency exposures based on the information provided by key management as at the statement of financial position date are as follows:

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
Group				
2015				
Financial assets				
Trade and bills receivables	33,261	–	2,226	35,487
Other receivables and deposits	37,637	–	–	37,637
Pledged deposits	280,902	–	25,000	305,902
Cash and bank balances	22,676	1,048	1,798	25,522
	374,476	1,048	29,024	404,548
Financial liabilities				
Trade payables	(1,349)	–	(5,937)	(7,286)
Other payables	(83,165)	–	–	(83,165)
Bank borrowings	(914,000)	–	–	(914,000)
	(998,514)	–	(5,937)	(1,004,451)
Net financial (liabilities)/assets	(624,038)	1,048	23,087	(599,903)

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(ii) Foreign currency risk (cont'd)

	RMB RMB'000	HKD RMB'000	USD RMB'000	Total RMB'000
Group				
2014				
Financial assets				
Trade and bills receivables	47,415	–	5,851	53,266
Other receivables and deposits	45,932	–	–	45,932
Pledged deposits	312,650	–	–	312,650
Cash and bank balances	29,838	1,283	88	31,209
	435,835	1,283	5,939	443,057
Financial liabilities				
Trade payables	(3,612)	–	(20,653)	(24,265)
Other payables	(69,300)	–	–	(69,300)
Bank borrowings	(937,500)	–	(11,536)	(949,036)
	(1,010,412)	–	(32,189)	(1,042,601)
Net financial (liabilities)/assets	(574,577)	1,283	(26,250)	(599,544)

A 5% strengthening of HKD and USD against RMB as at the statement of financial position date would increase/(decrease) the Group's loss after tax by the amounts shown below. This analysis assumes that all other variables remain constant.

	Loss after tax/equity 2015 RMB'000	Loss after tax/equity 2014 RMB'000
HKD	**(52)**	(64)
USD	**(1,154)**	1,313

A 5% weakening of the HKD and USD against RMB would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The Company has not disclosed its sensitivity analysis for foreign currency risk as the Company's risk exposure to movements in foreign currency exchange rates is not significant.

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(iii) Interest risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's and Company's financial instruments will fluctuate because of changes in market interest rates.

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's interest-bearing pledged deposits, cash and bank balances and bank borrowings, the interest rates of which are disclosed in Notes 16, 17 and 21, respectively. The Group currently does not have an interest rate hedging policy. However, the Group closely monitors the interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The tables below set out the Group's exposure to interest rate risk as at the statement of financial position date. Included in the tables are the financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Fixed Rate Within 1 year RMB'000	Variable Rate Within 1 year RMB'000	Non-interest Bearing Within 1 year RMB'000	Total RMB'000
Group				
2015				
Financial assets				
Trade and bills receivables	–	–	35,487	35,487
Other receivables and deposits	–	–	37,637	37,637
Pledged deposits	305,902	–	–	305,902
Cash and bank balances	–	25,349	173	25,522
	305,902	25,349	73,297	404,548
Financial liabilities				
Trade payables	–	–	(7,286)	(7,286)
Other payables	–	–	(83,165)	(83,165)
Bank borrowings	(341,000)	(92,000)	(481,000)	(914,000)
	(341,000)	(92,000)	(571,451)	(1,004,451)
Net financial (liabilities)/assets	(35,098)	(66,651)	(498,154)	(599,903)

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(iii) Interest risk (cont'd)

	Fixed Rate Within 1 year RMB'000	Variable Rate Within 1 year RMB'000	Non-interest Bearing Within 1 year RMB'000	Total RMB'000
Group (cont'd)				
2014				
Financial assets				
Trade and bills receivables	–	–	53,266	53,266
Other receivables and deposits	–	–	45,932	45,932
Pledged deposits	312,650	–	–	312,650
Cash and bank balances	–	31,094	115	31,209
	312,650	31,094	99,313	443,057
Financial liabilities				
Trade payables	–	–	(24,265)	(24,265)
Other payables	–	–	(69,300)	(69,300)
Bank borrowings	(230,000)	(292,536)	(426,500)	(949,036)
	(230,000)	(292,536)	(520,065)	(1,042,601)
Net financial assets/(liabilities)	82,650	(261,442)	(420,752)	(599,544)

If variable interest rates increase/decrease by 1%, the Group's loss before tax will be higher/lower by approximately RMB0.6 million (2014: RMB2.6 million) as a result of higher/lower net interest expenses. This analysis assumes that all other variables remain constant.

The Company has not disclosed its sensitivity analysis for interest risk as the Company's risk exposure to movements in interest rates is not significant.

(iv) Liquidity risk

Liquidity risk is the risk that the Group and the Company will encounter difficulty in meeting financial obligations due to strategic of funds.

In the management of liquidity risk, the Group and the Company monitor and maintain a level of cash and bank balances deemed adequate by the management to finance the Group's and the Company's operations, mitigate the effects of fluctuations in cash flows and have an adequate amount of committed and/or stand-by banking facilities. Further discussion on the Group's and the Company's liquidity risk is disclosed in Note 2(b).

27 Financial Instruments (cont'd)

(a) Financial Risk Management Objectives and Policies (cont'd)

(iv) Liquidity risk (cont'd)

The table below analyses the maturity profile of the financial liabilities of the Group and the Company as at the statement of financial position date based on contractual undiscounted cash flows of the financial liabilities on the earlier date on which the Group and the Company can be required to pay.

	Carrying amount RMB'000	Contractual cash flows RMB'000	Cash flows Within 1 year RMB'000
Group			
2015			
Trade payables	7,286	7,286	7,286
Other payables	83,165	83,165	83,165
Bank borrowings	914,000	924,250	924,250
	1,004,451	1,014,701	1,014,701
2014			
Trade payables	24,265	24,265	24,265
Other payables	69,300	69,300	69,300
Bank borrowings	949,036	961,252	961,252
	1,042,601	1,054,817	1,054,817
Company			
2015			
Other payables	15,984	15,984	15,984
2014			
Other payables	12,383	12,383	12,383

(b) Fair Values

The carrying amounts of financial assets and financial liabilities with a maturity of less than one year (including cash and bank balances, pledged deposits, trade and bills receivables, other receivables and deposits, trade payables, other payables and bank borrowings) approximate their fair value due to relatively short term maturities of these financial instruments or the management do not anticipate the receipt/payment of these financial assets/liabilities to be materially different from their carrying amounts when due.

28 Capital Management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;
- To support the Group's stability and growth; and
- To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The capital structure of the Group consists of bank borrowings and other components of equity as shown in the consolidated statement of financial position.

The Group's overall strategy remains unchanged from 2014. There is also no externally imposed capital requirements for the financial years ended 30 June 2015 and 2014, other than the statutory reserve requirements of the Group's subsidiaries in the PRC as disclosed in Note 19.

The Group also monitors capital using a net debt against total capital ratio, which is the total of bank borrowings and trade and other payables, less cash and bank balances divided by total shareholders' equity plus net debt (total capital). The Group's net debt against total capital ratio as at the statement of financial position date is as follow:

	Group	
	2015	2014
	RMB'000	RMB'000
Total debts	**1,028,346**	1,067,786
Less: Cash and bank balances	**(25,522)**	(31,209)
Net debt	**1,002,824**	1,036,577
Equity attributable to owners of the Company	**(90,698)**	147,133
Total capital	**912,126**	1,183,710
Net debt against total capital ratio	**109.9%**	87.6%

29 Subsequent Events

On 2 September 2015, the Company received the letter of notification of delisting from SGX-ST. The Company is still loss-making and has not met the requirements under Listing Rule 1314 for its removal from the Watch-list, hence SGX-ST will proceed to delist the Company from the Mainboard of the SGX-ST pursuant to Listing Rule 1315 of the Listing Manual.

Subsequently, the Company announced on 1 October 2015 that it has engaged advisors in connection with the provision by the Company or its controlling shareholders of a reasonable exit offer to shareholders pursuant to Listing Rule 1306, read in conjunction with Listing Rule 1309, of the Listing Manual.

As at the date of authorisation of these financial statements, the Company has approached its controlling shareholders with respect to them making a reasonable exit offer to shareholders (the "Exit Offer"). The Company will update shareholders in due course on the status of the Exit Offer.

Shareholder's Information

As at 12 November 2015

Class of shares	:	Ordinary shares of HK$0.30 each
Authorised share capital	:	HK$180,000,000
Issued and fully paid-up capital	:	HK$80,400,000
Number of Shares issued	:	268,000,000 shares
Voting rights	:	One vote per share

The Company does not hold any Treasury Shares.

STATISTICS OF SHAREHOLDINGS

Size of Shareholding	Number of Shareholders	%	Number of Shares	%
1 - 99	0	0.00	0	0.00
100 - 1,000	37	4.74	37,000	0.01
1,001 - 10,000	388	49.75	1,849,000	0.69
10,001 - 1,000,000	333	42.69	29,239,400	10.91
1,000,001 and above	22	2.82	236,874,600	88.39
	780	100.00	268,000,000	100.00

SUBSTANTIAL SHAREHOLDERS AS AT 12 NOVEMBER 2015

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Yorkworth Limited[1]	89,060,000	33.23	–	–
Liu Ming[1]	45,020,000	16.80	89,060,000	33.23
Proven Choice Group Limited[2]	50,000,000	18.66	–	–
Wang Linjia[2]	–	–	50,000,000	18.66

Notes:

1. Mr Liu Ming is the sole shareholder and director of Yorkworth Limited. All the shares held by Yorkworth Limited are held in trust for 573 employees of our Group, pursuant to a trust deed dated 27 June 2007. None of these employees are related to our Directors or Substantial Shareholders.

2. Mr Wang Linjia is the sole shareholder of Proven Choice Group Limited and he is deemed to be interested in the shares held by Proven Choice Group Limited.

Shareholder's Information

As at 12 November 2015

TWENTY LARGEST SHAREHOLDERS

No.	Name of Shareholders	Number of Shares	%
1.	Yorkworth Limited	89,060,000	33.23
2.	Proven Choice Group Limited	50,000,000	18.66
3.	Liu Ming	45,020,000	16.80
4.	Pu Weidong	7,221,200	2.69
5.	Zhu Xiuqing	5,240,000	1.96
6.	He Guanghui	4,490,800	1.68
7.	CIMB Securities (Singapore) Pte Ltd	4,405,000	1.64
8.	Xu Hua	4,020,000	1.50
9.	Chen Kaitong	3,955,000	1.48
10.	Maybank Kim Eng Securities Pte Ltd	2,968,000	1.11
11.	Phillip Securities Pte Ltd	2,805,000	1.04
12.	Hong Leong Finance Nominees Pte Ltd	2,394,000	0.89
13.	Kim Seng Holdings Pte Ltd	2,200,000	0.82
14.	Ng Gek Geok	2,130,000	0.79
15.	Wang Hongxia	2,100,000	0.78
16.	DBS Nominees Pte Ltd	1,800,000	0.67
17.	Raffles Nominees (Pte) Ltd	1,495,600	0.56
18.	Lu Zemin	1,200,000	0.45
19.	Cheng Wenliang	1,120,000	0.42
20.	Zhao Wei	1,120,000	0.42
		234,744,600	87.59

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

28.83% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **CHINA HONGCHENG HOLDINGS LIMITED** (the "Company") will be held at Orchid Country Club, Emerald, Orchid Club Road, Singapore 769162 on Wednesday, 9 December 2015 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Financial Statements of the Company for the financial year ended 30 June 2015 together with the Auditors' Report thereon. (**Resolution 1**)

2. To re-elect the following Directors retiring pursuant to Bye-law 86 of the Company's Bye-laws:

Mr Zhao Wei	(**Resolution 2**)
Mr Lu Zemin	(**Resolution 3**)
Mr Jia Luo	(**Resolution 4**)
Ms Wang Hongxia	(**Resolution 5**)

Mr Jia Luo will, upon re-election as a Director of the Company, remain members of the Audit Committee, Remuneration Committee and Nominating Committee and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited.

3. To approve the payment of Directors' fees of RMB670,448 (equivalent to S$150,583 for the year ending 30 June 2016, payable half-yearly in arrears (2015: RMB670,448 (equivalent to S$137,442). (**Resolution 6**)

4. To re-appoint Moore Stephens LLP, Public Accountants and Chartered Accountants, Singapore, as the Company's Auditors and to authorise the Directors to fix their remuneration. (**Resolution 7**)

5. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolution as Ordinary Resolution:

6. SHARE ISSUE MANDATE

That pursuant to Bye-law 12(3) of the Company's Bye-laws and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be given to the Directors of the Company to:

(a) (i) issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or

(ii) make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares,

at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit; and

(b) (notwithstanding the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any Instruments made or granted by the Directors of the Company while this Resolution was in force,

provided that:

(1) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty percent (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company;

(2) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company as at the date of the passing of this Resolution, after adjusting for:

   (i) new shares arising from the conversion or exercise of convertible securities;

   (ii) new shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed; and

   (iii) any subsequent bonus issue, consolidation or subdivision of shares;

(3) And that such authority shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.

[See Explanatory Note (i)] (**Resolution 8**)

By Order of the Board

Yu Ho Fung
Toh Li Ping, Angela
Joint Company Secretaries

23 November 2015

Notice of Annual General Meeting

Explanatory Note to Resolution to be passed –

(i) The Ordinary Resolution 6 proposed in item 6 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty percent (20%) may be issued other than on a pro rata basis.

Notes:

1. A Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If a Depositor wishes to appoint a proxy/proxies to attend the Meeting, then he/she must complete and deposit the Depositor Proxy Form at the office of the Singapore Share Transfer Agent, B.A.C.S. Private Limited, 8 Robinson Road #03-00 ASO Building Singapore 048544 not less than forty-eight (48) hours before the time of the Meeting.

3. If the Depositor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

Personal data privacy:

By submitting an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company or a Depositor, as the case may be (i) consents to the collection, use and disclosure of the member or Depositor's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member or a Depositor discloses the personal data of the member or Depositor's proxy(ies) and/or representative(s) to the Company (or its agents), the member or Depositor has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member or Depositor will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member or Depositor's breach of warranty.