OPERATIONS AND FINANCIAL REVIEW

The Group’s revenue which comprised sale of Full Drawn Yarn (“FDY”) /High Oriented Yarn (“HOY”) and Drawn Texture Yarn (“DTY”) decreased by RMB 321.4 million or 15.4% from RMB 2,082.6 million for the financial year ended 31 December 2014 (“FY2014”) to RMB 1,761.2 million for the financial year ended 31 December 2015 (“FY2015”).

FDY/HOY segment’s revenue decreased by RMB 241.9 million or 13.7% from RMB 1,761.5 million in FY2014 to RMB 1,519.6 million in FY2015, whilst DTY segment’s revenue decreased RMB 79.5 million or 24.8% from RMB 321.1 million in FY2014 to RMB 241.6 million in FY2015.

The decrease in revenue was mainly due to decrease in selling price both FDY/HOY and DTY revenue segment as compared to corresponding financial year ended 31 December 2014.

Cost of sales of the Group increased by RMB 31.7 million or 1.6% from RMB 1,966.3 million in FY2014 to RMB 1,998.0 million in FY2015.

Breakdown of cost of sales:-

<table>
<thead>
<tr>
<th></th>
<th>FY2015 (RMB’000)</th>
<th>FY2014 (RMB’000)</th>
<th>Variance (RMB’000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>1,741,865</td>
<td>1,744,265</td>
<td>(2,400)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>Direct labour</td>
<td>35,031</td>
<td>38,747</td>
<td>(3,716)</td>
<td>(9.59)</td>
</tr>
<tr>
<td>Consumable materials</td>
<td>7,891</td>
<td>5,007</td>
<td>2,884</td>
<td>57.60</td>
</tr>
<tr>
<td>Depreciation of plant and machineries</td>
<td>90,951</td>
<td>97,349</td>
<td>(6,398)</td>
<td>(6.57)</td>
</tr>
<tr>
<td>Utilities</td>
<td>100,583</td>
<td>80,967</td>
<td>19,616</td>
<td>24.23</td>
</tr>
<tr>
<td>Inventories written-down</td>
<td>21,711</td>
<td>-</td>
<td>21,711</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>1,998,032</td>
<td>1,966,335</td>
<td>31,697</td>
<td>1.61</td>
</tr>
</tbody>
</table>

The Group generated a gross loss of RMB 236.9 million in FY2015 as compared to the gross profit of RMB 116.3 million in FY2014.

The main reason for the Group incurring losses is due to the continuing weak market demand for textile, in particular the nylon market where the textile market is currently facing an oversupply of nylon products and this situation has yet to reach a stabilized stage. This has resulted in falling average selling price of nylon products due to the sluggish downstream demand, coupled with manufacturers trying to clear their excess inventories by lowering their selling price to push their sales, has put further pressure on the already falling average selling price of nylon products.

Accordingly, notwithstanding the declining global crude oil price which has resulted in lower raw materials costs, the sharp decline in our average selling price of nylon products due to reasons mentioned above has more than offset the saving from the lower raw materials costs, resulting in the Group incurring losses.

In addition, in compliance with the Group’s policies, the management has carried out the net realisable value test on the existing inventories. As a results, the Management has recognised an inventories written-down of RM 21.7 million during the current financial year, resulting in the Group incurring losses.

Other operating income increased by RMB 14.8 million from RMB 11.0 million in FY2014 to RMB 25.8 million in FY2015. The increase was mainly due to the government grant of RMB 20 million received from the Qingdao Government in respect of the restoration of the plant, partially offset by the decrease in interest income of RMB 6.3 million as a result of redemption of short term deposits.
from the financial institutions at the end of December 2014, absent of the income from the gain of disposal of property, plant and equipment of RMB 2.2 million and lesser income received from the disposal of scrap materials.

Other operating expenses increased by RMB 104.7 million from RMB 59.2 million in FY2014 to RMB 163.9 million in FY2015. The increase in other operating expenses was mainly due to impairment loss of RMB 158.6 million (FY2014: RMB58.2 million) recognised in respect of property, plant and equipment during the current financial year, partially offset and a provision for restoration of RMB 4.4 million incurred during the current financial year.

The Group carried out a review of the recoverable amount of property, plant and equipment due to indicators for impairment as the property, plant and equipment had been deployed in the Company’s PRC subsidiaries that continuously experienced declining revenue and had incurred losses as reflected in the latest revised cash flow projection prepared by the Management. The review led to the recognition of an impairment loss of RMB 158,596,000 in current financial year’s profit or loss.

In view of the subsidiary of the Company, Qingdao Zhongda Chemical Fibre Co., Ltd has signed the land recovery agreement with Qingdao Government. The Company has made a provision of restoration of RMB 4.4 million during the current financial year to demolish all building, annex and facilities on the existing manufacturing plant at Qingdao City, China in order to fulfill the conditions in the land recovery agreement signed on 10 October 2015. Please refer to the Company’s announcement made on 17 November 2015 and 24 November 2015 for further information.

(Loss)/Profit and Total Comprehensive Income for the year attributable to owners of the Company

In FY2015, the Group recorded an operating loss after tax of RMB 425.3 million (FY2014: operating profit after tax of RMB 14.6 million).

REVIEW OF STATEMENTS OF FINANCIAL POSITION

Carrying amount of property, plant and equipment decreased from RMB 1,160.8 million as at 31 December 2014 to RMB 905.9 million as at 31 December 2015. The decrease was mainly due to impairment loss of RMB 158.6 million and the annual depreciation charged of RMB 96.3 million on property, plant and equipment during the financial year.

Land use rights decreased from RMB 97.1 million as at 31 December 2014 to RMB 95.0 million as at 31 December 2015. The decrease in land use rights was mainly due to incurred amortisation expenses of RMB 2.1 million during the financial year.

Working capital

The working capital of the Group as at 31 December 2015 and as at 31 December 2014 is set out below:

<table>
<thead>
<tr>
<th>(RMB’ million)</th>
<th>As at 31 December 2015</th>
<th>As at 31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total current assets</td>
<td>1,012.1</td>
<td>1,169.1</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>66.8</td>
<td>62.7</td>
</tr>
<tr>
<td>Working capital</td>
<td>945.3</td>
<td>1,106.4</td>
</tr>
</tbody>
</table>

The Group had positive working capital of RMB 945.3 million as at 31 December 2015, as compared to RMB 1,106.4 million as at 31 December 2014.
The increase in trade receivables was mainly due to slower collections in view of the continuous unstable economic conditions in China. The credit terms of the trade receivables are between 30 – 90 days.

The decrease in other receivables was mainly due to;

a. Decrease in advance payments to supplier for the purchase of raw materials of RMB 217.2 million; and
b. Increase in value added tax receivables of RMB 64.6 million. The VAT receivables will be used to offset against the VAT payables incurred for subsequent sales.

The increase in both raw materials and finished goods were mainly due to the increase in purchase of raw materials and the increase in productions of finished goods in anticipation of subsequent sales.

The increase in trade payables was mainly due to the increase in purchase of other raw materials.

Other payables consists mainly of provision for staff salaries, bonuses and provident funds as well as accrual of professional fees incurred by the Group.

**REVIEW OF CONSOLIDATED STATEMENT OF CASH FLOWS**

In FY2015, the Group’s net cash used in operating activities amounted to RMB 317.0 million. This was mainly due to the operating loss for the financial year and increase in inventories of RMB 239.8 million, partially offset by the cash inflows arising from decreases in trade and other receivables of RMB 60.1 million and trade and other payables of RMB 6.8 million.

Net cash generated from investing activities amounted to RMB 2.0 million as a result of the interest received during the current financial year.
As a result of the above, there was a net decrease of RMB 315.0 million in cash and cash equivalents, from RMB 594.3 million as at 31 December 2014 to RMB 279.3 million as at 31 December 2015.

OUTLOOK

In view of the sluggish overall market in China, the economic environment is challenging and the fluctuation of crude oil prices will have a direct impact on the production cost of the Group. The management will continue to adjust the production structure, develop new quality products and aim for better margin in response to the changing market condition.

The Group is currently exploring new business opportunities that will enhance shareholders’ value over long term and will make necessary announcement when there is significant development on the same.