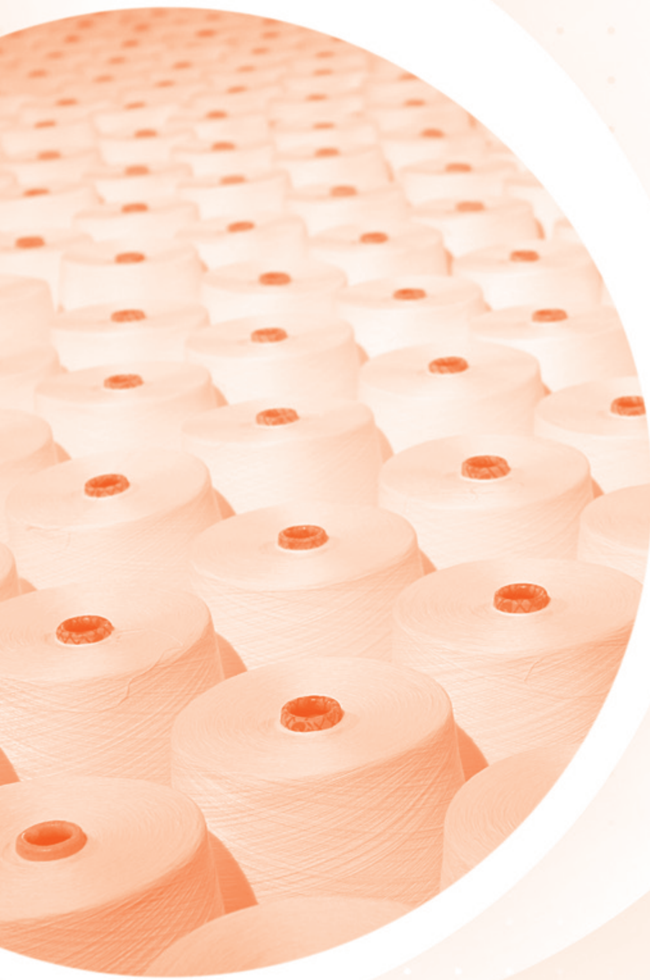
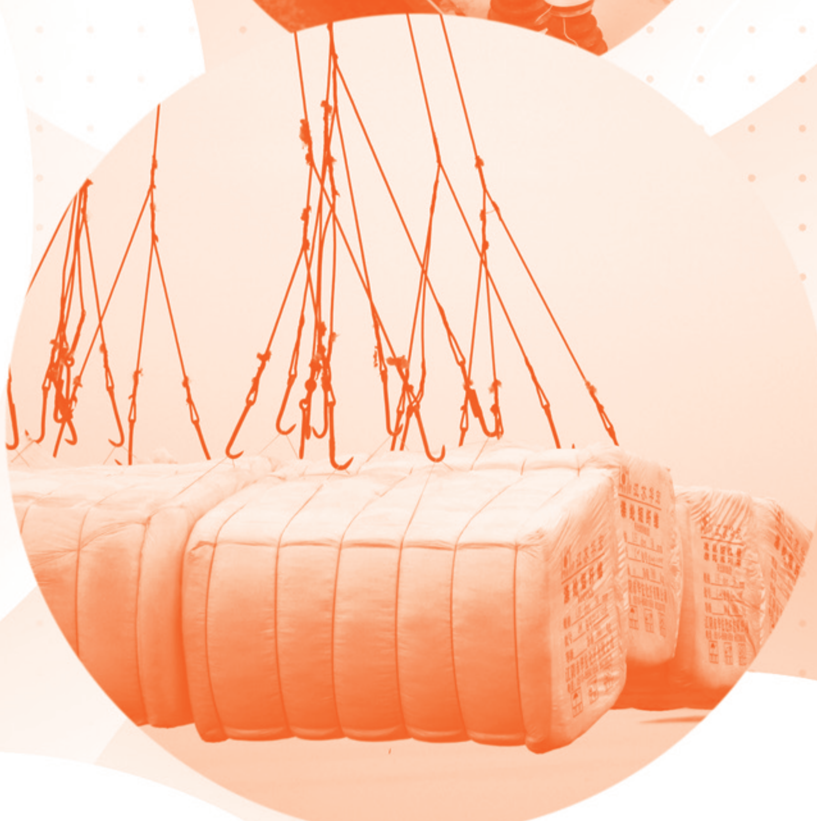
CHINA WEAVING MATERIALS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3778

Interim Report 2019





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Corporate Information

BOARD OF DIRECTORS (THE "BOARD")

Executive Directors
Mr. Zheng Hong *(Chairman)*
Mr. Zheng Yongxiang

Non-Executive Director
Mr. Sze Irons, BBS, JP
(resigned on 6 June 2019)

Independent Non-Executive Directors
Mr. Ng Wing Ka, BBS, JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

BOARD COMMITTEES

Audit committee
Ms. Zhang Baixiang *(Chairman)*
Mr. Ng Wing Ka, BBS, JP
Mr. Xu Yiliang

Remuneration committee
Mr. Ng Wing Ka, BBS, JP *(Chairman)*
Ms. Zhang Baixiang
Mr. Zheng Hong
Mr. Xu Yiliang

Nomination committee
Mr. Zheng Hong *(Chairman)*
Mr. Ng Wing Ka, BBS, JP
Ms. Zhang Baixiang
Mr. Xu Yiliang

COMPANY SECRETARY

Mr. Cheung Chi Fai Frank

AUTHORISED REPRESENTATIVES

Mr. Zheng Hong
Mr. Cheung Chi Fai Frank

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD QUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA ("PRC")

Fengtian Development Zone
Fengxin County
Jiangxi Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 806, 8/F, Capital Centre
151 Gloucester Road
Wanchai, Hong Kong

Corporate Information

LEGAL ADVISERS

As to Hong Kong law:
Luk and Partners
In Association with
Morgan, Lewis and Bockius

As to PRC law:
Jiangxi Kangtuo Law Offices

AUDITOR

RSM Hong Kong
Certified Public Accountants

INVESTORS RELATIONSHIP CONSULTANT

Anli Financial Communications Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTER AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand CaymanKY1-1111
Cayman Islands

HONG KONG SHARE REGISTER AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
(Fengxin Sub-branch)
Bank of Beijing
(Nanchang Branch)
Bank of Communications Limited
(Nanchang Donghu Sub-branch)
Bank of Jiujiang
(Fengxin Sub-branch)
China CITIC Bank
(Nanchang Branch)
China Construction Bank Corporation
(Fengxin Sub-branch)
China Everbright Bank Co. Ltd.
(Fuzhou Nanmen Sub-branch)
Fengxin Rural Commercial Bank
Industrial and Commercial Bank of China Limited
(Fengxin Sub-branch)
Industrial Bank Co. Ltd.
(Nanchang Branch)
Nanyang Commercial Bank (China) Limited
(Shenzhen Branch)
Shanghai Pudong Development Bank Co. Ltd.
(Nanchang Branch)
Sumitomo Mitsui Finance and Leasing (China) Co., Ltd.
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking Corporation Limited

COMPANY WEBSITE

www.chinaweavingmaterials.com

STOCK CODE

3778

Management Discussion and Analysis

MARKET OVERVIEW

In 2019, the United States (the "**US**") has achieved a GDP growth rate of around 3.1% and 2.1% for the first quarter and the second quarter respectively. However, the GDP growth rate of the European Union (the "**EU**") countries was only around 0.5% and 0.2% for the first quarter and the second quarter of 2019 respectively. The GDP growth rate in the People's Republic of China (the "**PRC**") was 6.3% for the first half of 2019, the lowest growth rate in almost three decades. The Sino-US trade war, a sluggish European economy and a slowing economy in the PRC have posted challenges for business globally.

After the significant drop in oil prices in the fourth quarter of 2018, the international average crude oil price has picked up in the first quarter of 2019 and reached over US$65 per barrel in April. However, it has been edging down for the rest of the second quarter and remained at a relatively low level. The downward trend of international crude oil price has pushed down the prices of oil related downstream products, including raw materials for polyester yarn products. Due to lower raw materials prices, selling prices of polyester related yarn products have been under pressure.

The international cotton prices have been trading between US70 cents per pound and US75 cents per pound in the first quarter of 2019 but the prices have taken a sudden drop to around US65 cents per pound in the second quarter. The domestic cotton prices in the PRC have been trading at around RMB15,500 per tonne for most of the time in the first quarter of 2019 and they have followed the downward price trend of international cotton in the second quarter. Although there has not been any change in the policy of direct subsidy to Xinjiang farmers by the PRC government and the PRC national cotton reserve has been auctioned in an orderly manner, both international and domestic cotton prices have shown signs of weakness in the second quarter of 2019 under the threat of global economy slowdown triggered by trade war and other uncertainties in the macro environment.

The suspension of trade talks between the PRC and the US in the first half of 2019 together with the increase in tariff from 10% to 25% on US$200 billion worth of export products from China by the US in May have greatly undermined business confidence and created great uncertainty in the macroeconomic environment. A downward price trend of the basic raw materials for polyester related yarn products driven by oil related downstream products and the weakening of domestic cotton prices and international cotton prices have exacerbated unfavourable market conditions for the textile industry as a whole. In Europe, Brexit and political unrest in certain major European countries continued to hinder the economical recovery. The trade war with the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of the enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. Both external and internal factors have introduced risks and uncertainties for the industry as a whole.

BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with its subsidiaries (the "**Group**") increased by 2.2% from approximately 56,775 tonnes for the six months ended 30 June 2018 to approximately 57,999 tonnes for the six months ended 30 June 2019. The production volume of yarn products of the Group increased by 6.7% from approximately 57,777 tonnes for the six months ended 30 June 2018 to approximately 61,652 tonnes for the six months ended 30 June 2019. The revenue of the Group increased by 1.1% to approximately RMB846.9 million for the six months ended 30 June 2019 as compared to RMB837.7 million for the six months ended 30 June 2018. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2019 were approximately RMB77.7 million and approximately RMB35.2 million, respectively.

Management Discussion and Analysis

In order to cope with the adverse market conditions, the Group has adjusted its product mix and shifted its emphasis to mass market products which are generally geared to downstream customers engaged in the PRC domestic market. Certain production capacities have been modified from the production of polyester-cotton blended yarn products to pure polyester yarn products which are mass market products. Although high-end products, including polyester-cotton blended yarn products and pure cotton yarns products with higher counts, generally produce better margin, they are more geared to downstream customers engaged in export markets to the US and Europe which are currently under severe headwinds. The Group is also adopting a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume. The above measures will increase the pressure on gross margin and profitability for the second half of the year but the Group could achieve a healthier inventory level, making it more endurable under harsh market conditions.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**"), has continued to rationalize its production in the first half of 2019. Xinyuan is engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. The sales volume of PSF decreased by 6.6% from approximately 9,653 tonnes for the six months ended 30 June 2018 to approximately 9,016 tonnes for the six months ended 30 June 2019. The production volume of PSF increased by 42.5% from approximately 9,608 tonnes for the six months ended 30 June 2018 to approximately 13,694 tonnes for the six months ended 30 June 2019. The Group has acquired an additional 26% interest in Xinyuan from a minority shareholder in July 2019 at a consideration of RMB18.2 million as the Group is confident in the long term future of Xinyuan. The Group believes the acquisition could streamline the shareholding structure and improve management efficiency.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2019 was approximately RMB846.9 million, representing an increase of approximately RMB9.2 million, or 1.1%, as compared to the corresponding period last year. The analysis of the sales of the Group's products is as below:

	Six months ended 30 June 2019 RMB'000		Six months ended 30 June 2018 RMB'000	
Polyester yarns	**265,500**	**31.3%**	269,857	32.2%
Polyester-cotton and viscose-cotton blended yarns	**352,818**	**41.7%**	346,492	41.4%
Cotton yarns	**20,882**	**2.4%**	18,536	2.2%
Viscose and Stretchable core viscose yarns	**76,864**	**9.1%**	67,500	8.1%
Grey and deep grey mélange yarns	**95,450**	**11.3%**	95,651	11.4%
Polyester staple fibre	**34,257**	**4.0%**	36,285	4.3%
Raw materials	**614**	**0.1%**	2,503	0.3%
Others	**506**	**0.1%**	896	0.1%
	846,891	**100.0%**	837,720	100.0%

The slight increase in the revenue of the Group for the six months ended 30 June 2019 was mainly due to the slight increase in sales volume of the yarn products by approximately 2.2% as compared with the corresponding period in 2018. The average selling price of yarn products of the Group was approximately RMB13,992 per tonne for the six months ended 30 June 2019 which was about the same as RMB14,056 per tonne for the six months ended 30 June 2018.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB91.5 million for the six months ended 30 June 2018 to approximately RMB77.7 million for the six months ended 30 June 2019. The gross profit margin of the Group decreased from approximately 10.9% for the six months ended 30 June 2018 to approximately 9.2% for the six months ended 30 June 2019. The decrease in gross profit was mainly due to the increase in cost of production, especially direct labour and overhead costs. Due to adverse market conditions in the first half of 2019, manufacturers have not been able to pass on the increase in cost of production to the customers by increasing the selling prices.

Other Income

Other income of the Group increased from approximately RMB13.7 million for the six months ended 30 June 2018 to approximately RMB14.7 million for the six months ended 30 June 2019, representing an increase of approximately RMB1.0 million or 7.3%. The increase in other income was mainly due to an increase in income from scrap sales and interest income on bank deposits but partly offset by a decrease in government grants.

Distribution and Selling Expenses

Distribution and selling expenses of the Group increased from approximately RMB11.9 million for the six months ended 30 June 2018 to approximately RMB12.9 million for the six months ended 30 June 2019, representing an increase of approximately RMB1.0 million or 8.4%. The increase in distribution and selling expenses was mainly due to a change in customers and delivery destinations mix. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.5% for the six months ended 30 June 2019 (six months ended 30 June 2018: 1.4%).

Administrative Expenses

Administrative expenses of the Group remained about approximately the same at approximately RMB25.3 million for the six months ended 30 June 2019 as compared to approximately RMB25.7 million for the six months ended 30 June 2018. Administrative expenses as a percentage of revenue of the Group was approximately 3.0% for the six months ended 30 June 2019 (six months ended 30 June 2018: 3.1%).

Finance Costs

Finance costs of the Group decreased from approximately RMB17.0 million for the six months ended 30 June 2018 to approximately RMB16.2 million for the six months ended 30 June 2019, representing a decrease of 4.7% or approximately RMB0.8 million. The decrease in the Group's finance costs was mainly due to refinancing of certain bank and other borrowings with lower interest rates.

Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2019 was approximately 19.2%, as compared to 12.2% for the corresponding period in 2018. The increase in effective income tax rate was mainly due to the increase in deferred tax charge as a result of the recognition of deferred tax liabilities in respect of certain accelerated tax depreciation of the Group.

Profit attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company for the six months ended 30 June 2019 was approximately RMB35.2 million, representing a decrease of approximately RMB9.6 million, or 21.4%, as compared to that for the six months ended 30 June 2018. The net profit margin of the Group for the six months ended 30 June 2019 was approximately 4.2% representing a decrease of 1.1 percentage points as compared with 5.3% for the six months ended 30 June 2018. The decrease in the Group's net profit was mainly due to the decrease in gross profit.

Management Discussion and Analysis

Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2019 was approximately RMB2.81 cents, representing a decrease of approximately 21.5% as compared with approximately RMB3.58 cents for the six months ended 30 June 2018. The decrease in basic earnings per share of the Company was due to the decrease in net profit for the six months ended 30 June 2019.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC and Hong Kong. During the six months ended 30 June 2019, net cash generated from operating activities of the Group amounted to approximately RMB5.0 million (six months ended 30 June 2018: RMB190.4 million). The Group had cash and bank balances of approximately RMB107.1 million (31 December 2018: RMB47.5 million), pledged bank deposits of approximately RMB90.8 million (31 December 2018: RMB69.8 million) and restricted bank deposits of approximately RMB0.5 million (31 December 2018: RMB0.5 million) at 30 June 2019. The Group's cash and bank balances were mainly held in Hong Kong Dollars and Renminbi ("**RMB**").

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and Hong Kong Dollars. At 30 June 2019, the Group's interest-bearing borrowings amounted to approximately RMB550.5 million (31 December 2018: RMB465.2 million), RMB391.8 million (71.2%) of which (31 December 2018: RMB391.0 million (84.0%)) was repayable within one year or on demand. The Group's banking facilities were secured by its right-of-use assets, properties, plant and equipment and pledged bank deposits with a carrying value of approximately RMB823.3 million in aggregate (31 December 2018: RMB772.3 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank and other borrowings, lease liabilities, bills payable and entrusted loan payables to total assets, was approximately 45.5% at 30 June 2019 (31 December 2018: 41.0%). Net current liabilities and net assets at 30 June 2019 was approximately RMB265.8 million (31 December 2018: RMB407.6 million) and approximately RMB652.2 million (31 December 2018: RMB621.5 million), respectively.

Foreign Exchange Exposure

As the Group conducts business transactions principally in RMB, the management considered the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the six months ended 30 June 2019.

The Group has foreign currency cash and bank balances, pledged bank deposits, trade and other receivables, bills payable, bank and other borrowings, lease liabilities and other payables, which mainly expose the Group to risk in Hong Kong Dollars and US Dollars. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 30 June 2019 were approximately RMB3.6 million (31 December 2018: RMB4.7 million) and RMB36.6 million (31 December 2018: 32.8 million), respectively.

Contingent Liabilities

At 30 June 2019, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

At 30 June 2019, the Group had a total of 3,245 employees (31 December 2018: 3,196). Remuneration for employees, including the directors of the Company (the "**Directors**"), is determined in accordance with performance, professional experiences and the prevailing market practices. The Group's management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company had adopted a share option scheme on 3 December 2011, under which the Company may grant options to eligible persons including Directors and employees. No share option has been granted pursuant to the scheme since its adoption.

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

During the six months ended 30 June 2019, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

The trade war with the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of the enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. At the same time, a downward trend of the prices of raw materials has put pressure on selling prices of yarn products. The above mentioned factors have introduced risks and difficulties for the industry as a whole.

In order to cope with the adverse market conditions, the Group has modified certain production capacities in order to adjust its product mix. The Group also adopted a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume.

Looking forward, the Sino-US trade war and a sluggish global economy will continue to pose challenges to the textile industry in the PRC. The Group will continue to closely monitor the market conditions and take necessary measures to adjust its production capacities, product mix and pricing strategy. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its future. The Group believes it is well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.

Corporate Governance and Other Information

DIVIDEND

The Board declared an interim dividend for the six months ended 30 June 2019 of HK1.5 cents per Share to the shareholders of the Company (the "**Shareholders**") (six months ended 30 June 2018: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company ("**Shares**") during the six months ended 30 June 2019.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2019, the interest or short positions in the Shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") under the provisions of Divisions 7 and 8 of Part XV of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), are set out below:

Name of Director	Nature of Interest	Position	Number of shares	Approximate percentage of shareholding in the Company
Mr. Zheng Hong	Interest of a controlled corporation	Long position	514,305,000 Shares (note)	41.07%
Mr. Zheng Yongxiang	Beneficial owner	Long position	48,125,200 Shares	3.84%

Note

These Shares are held by Popular Trend Holdings Limited ("**Popular Trend**"), the entire issued share capital of which is owned by Mr. Zheng Hong.

Save as disclosed above, as at 30 June 2019, none of the Directors (including their spouse and children under 18 years of age) had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Pursuant to a resolution of the Shareholders passed on 3 December 2011, the Company has adopted a share option scheme (the "**Scheme**"). The purpose of the Scheme is to recognise and acknowledge the contributions the eligible participants had or may have made to the Group. The Scheme became effective on 22 December 2011 and, unless otherwise cancelled or amended, will remain in force for 10 years from the adoption of the Scheme. The remaining life of the Scheme is approximately 2.3 years as at the date of this report. The terms of the Scheme are in compliance with the provisions of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the" **Listing Rules**").

Eligible participants of the Scheme include any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; any directors (including non-executive director and independent non-executive directors) of the Company or any of its subsidiaries; and any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

The total number of Shares available for issue under the Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong and the conditional placing by the international underwriters of the international placing shares, being 100,000,000 Shares, representing approximately 7.98% of the issued share capital of the Company as at the date of this report. Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the 10% limit to eligible participants specifically identified by the Board.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time.

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to: (i) the issue of a circular by the Company; and (ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a Director, chief executive or substantial shareholder of the Company (as defined under the Listing Rules), or to any of their respective associates (as defined under the Listing Rules), are required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). In addition, any share options granted to a substantial Shareholder or an independent non-executive Director or any of their respective associates of the Company, (i) representing in aggregate over 0.1%, or such other percentage as may from time to time provided under the Listing Rules, of the Shares in issue on the date of grant; and having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets at the date of each grant, are subject to issue of a circular and Shareholders' approval in general meeting by way of a poll.

The offer of a grant of share options may be accepted by a participant not later than 30 days after the date of offer, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

The subscription price for Shares under the Scheme shall be a price determined by the Board in its absolute discretion, save such price will not be less than the highest of:

i. the official closing price of the Shares as stated in the daily quotation sheets on the date of the offer of the grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

ii. the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

iii. the nominal value of a Share.

The exercise period for the share options granted is determined by the Board in its absolute discretion, which period may commence from the date of acceptance of the offer for the grant of share options but in any event shall not exceed 10 years from the date of grant.

Subject to the earlier termination of the Scheme in accordance with the Scheme rules, the Scheme will remain effective until (but not including) 22 December 2021.

No option has been granted under the Scheme as at the date of this report.

Corporate Governance and Other Information

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURE

Save as disclosed in the section headed "Share Option Scheme" above, at no time during the six months ended 30 June 2019 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2019, so far as is known to any Director or chief executive of the Company, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the Shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interest	Position	Number of Shares	Approximate percentage of shareholding in the Company
Popular Trend [(1)]	Beneficial owner	Long position	514,305,000 Shares	41.07%

Note:

(1) Popular Trend is wholly-owned by Mr. Zheng Hong.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2019, the Company had complied with the code provisions of the existing Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.

In respect of code provision A6.7 of the CG Code, one of the independent non-executive Directors and the non-executive Director were unable to attend the annual general meeting of the Company held on 5 June 2019 due to other business commitment.

In respect of code provision C.2.5 of the CG Code, the Company has not set up an Internal Audit ("**IA**") function. Having considered the size and complexity of the operations of the Group and the potential cost involved in setting up an IA function, the Company considers the existing organisation structure and the close supervision of the executive management could provide sufficient internal control and risk management for the Group. The audit committee under the Board will review the effectiveness of the internal control and risk management of the Group. The Board will review the need of an IA function on an annual basis.

Corporate Governance and Other Information

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct governing the Directors' securities transactions. The Company confirms that, having made specific enquiry of all the Directors, each of them has complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL INFORMATION

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2019.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 (unaudited) RMB'000	2018 (unaudited) RMB'000
Revenue	6	**846,891**	837,720
Cost of sales		**(769,175)**	(746,230)
Gross profit		**77,716**	91,490
Other income	7	**14,674**	13,725
Other gains and losses	8	**(22)**	(1,450)
Distribution and selling expenses		**(12,919)**	(11,924)
Administrative expenses		**(25,280)**	(25,714)
Finance costs	9	**(16,168)**	(17,012)
Profit before tax		**38,001**	49,115
Income tax expense	10	**(7,282)**	(5,997)
Profit and total comprehensive income for the period	11	**30,719**	43,118
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**35,246**	44,827
Non-controlling interests		**(4,527)**	(1,709)
		30,719	43,118
Earnings per share	13		
Basic		**RMB2.81 cents**	RMB3.58 cents
Diluted		**N/A**	N/A

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Note	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Non-current assets			
Property, plant and equipment	14	**1,025,878**	1,082,457
Prepaid lease payments		**–**	42,364
Right-of-use assets	15	**78,784**	–
Deposits on acquisition of property, plant and equipment		**1,103**	2,760
Goodwill		**20,617**	20,617
		1,126,382	1,148,198
Current assets			
Inventories	16	**276,178**	249,100
Trade and other receivables	17	**70,204**	31,724
Bills receivable	18	**6,514**	8,800
Prepaid lease payments		**–**	1,079
Pledged bank deposits		**90,824**	69,791
Restricted bank deposit		**500**	500
Cash and bank balances		**107,129**	47,548
		551,349	408,542
Current liabilities			
Trade and other payables	19	**168,946**	214,477
Contract liabilities		**36,316**	28,017
Bills payable	20	**212,800**	173,780
Deferred income		**227**	227
Finance lease payables		**–**	25,064
Bank and other borrowings	21	**369,681**	365,923
Lease liabilities		**22,757**	–
Current tax liabilities		**6,384**	8,688
		817,111	816,176
Net current liabilities		**(265,762)**	(407,634)
Total assets less current liabilities		**860,620**	740,564

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	Note	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Non-current liabilities			
Deferred income		**7,369**	7,483
Bank and other borrowings	21	**58,646**	24,176
Entrusted loan payables		**100,000**	50,000
Lease liabilities		**416**	–
Deferred tax liabilities		**41,949**	37,384
		208,380	119,043
NET ASSETS		**652,240**	621,521
Capital and reserves			
Share capital	22	**101,989**	101,989
Reserves		**525,416**	490,170
Equity attributable to owners of the Company		**627,405**	592,159
Non-controlling interests		**24,835**	29,362
TOTAL EQUITY		**652,240**	621,521

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Unaudited							
	Attributable to owners of the Company							
	Share capital RMB'000	Share premium RMB'000	PRC Statutory reserves RMB'000	Special reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At l January 2018	101,989	73,903	86,334	148,739	100,885	511,850	29,639	541,489
Profit/(Loss) and total comprehensive income for the period	–	–	–	–	44,827	44,827	(1,709)	43,118
At 30 June 2018	101,989	73,903	86,334	148,739	145,712	556,677	27,930	584,607
At l January 2019	**101,989**	**73,903**	**97,113**	**148,739**	**170,415**	**592,159**	**29,362**	**621,521**
Profit/(Loss) and total comprehensive income for the period	**–**	**–**	**–**	**–**	**35,246**	**35,246**	**(4,527)**	**30,719**
Transfer	**–**	**–**	**5,874**	**–**	**(5,874)**	**–**	**–**	**–**
At 30 June 2019	**101,989**	**73,903**	**102,987**	**148,739**	**199,787**	**627,405**	**24,835**	**652,240**

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**5,028**	190,446
CASH FLOW FROM INVESTING ACTIVITIES		
Placement of pledged bank deposits	**(64,324)**	(102,151)
Withdrawal of pledged bank deposits	**43,291**	76,946
Interest received	**946**	500
Addition of prepaid lease payments	**–**	(166)
Purchase of property, plant and equipment	**(2,455)**	(13,626)
Proceeds from disposal of property, plant and equipment	**15**	1,961
Deposits paid for acquisition of property, plant and equipment	**(1,103)**	(2,032)
Interest paid for consideration payable for the acquisition of a subsidiary	**–**	(3,600)
NET CASH USED IN INVESTING ACTIVITIES	**(23,630)**	(42,168)
CASH FLOW FROM FINANCING ACTIVITIES		
Advance from a related company	**41,000**	66,000
Repayment of advance from related companies	**(41,000)**	(188,000)
Advance from third parties	**–**	15,000
Proceeds from bank and other borrowings	**199,100**	149,950
Repayment of bank and other borrowings	**(167,806)**	(193,969)
Proceed from entrusted loan	**50,000**	–
Repayment of lease liabilities	**(3,111)**	(1,081)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**78,183**	(152,100)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**59,581**	(3,822)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**47,548**	57,796
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**107,129**	53,974
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**107,129**	53,974

1. GENERAL INFORMATION

China Weaving Materials Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 4 May 2011 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited on 22 December 2011. The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the principal place of business of the Company is at Fengtian Economic Development Zone of Fengxin County, Yichun City, Jiangxi Province, The People's Republic of China ("**PRC**").

The Company together with its subsidiaries (collectivity referred to as the "**Group**") are principally engaged in the business of manufacturing and trading of yarn products and related raw materials.

This condensed consolidated financial information for the six months ended 30 June 2019 is presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group continues to adopt the going concern basis in preparing its condensed consolidated financial information. At 30 June 2019, the Group had net current liabilities of approximately RMB265,762,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding the above, the condensed consolidated financial information has been prepared on a going concern basis as the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

(a) The banking facilities from the Group's bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:

   (i) Up to the date of the condensed consolidated financial information was authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB37,300,000 currently included in current liabilities at 30 June 2019.

   (ii) Undrawn banking facilities amounting to approximately RMB24,721,000.

   (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB73,207,000.

   (iv) Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.

2. BASIS OF PREPARATION (Continued)

(b) The Group is able to generate sufficient operating cash flows to meet its current and future obligations.

Having taken into account the above, the directors consider that the Group will have sufficient financial resources to meet in full its working capital requirements and financial obligations as and when they fall due in the foreseeable future. Accordingly, the condensed consolidated financial information has been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in this condensed consolidated financial information.

This condensed consolidated financial information should be read in conjunction with the 2018 annual financial statements. The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2018 except as stated below.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financing Reporting Standards (“**IFRSs**”) issued by the IASB that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. IFRSs comprise International Financing Reporting Standards (“**IFRS**”); International Accounting Standards (“**IAS**”); and Interpretations. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

The Group has initially adopted IFRS 16 Leases from 1 January 2019. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group’s consolidated financial statements.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, is required to recognise right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

Lessor accounting under IFRS 16 is substantially unchanged under IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has applied IFRS 16 from 1 January 2019 using the modified retrospective approach, under which the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The reclassification and the adjustments arising from IFRS 16 are recognised in the opening balance sheet on 1 January 2019. The details of the changes in accounting policies are disclosed below.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 Leases (Continued)

(a) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Group leases many assets, including production equipment, land and properties.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use assets relate to the following types of assets:

	Balance as at	
	30 June 2019 (unaudited) RMB'000	1 January 2019 (unaudited) RMB'000
Production equipment	**34,891**	36,362
Land use rights	**42,904**	43,443
Properties	**989**	–
Total right-of-use assets	**78,784**	79,805

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 Leases (Continued)

(b) As a lessee (continued)

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

– Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

The Group leases a number of items of production equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were determined at the carrying amounts of the lease assets and lease liabilities under IAS 17 immediately before that date.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 16 Leases (Continued)

(c) Impacts on financial statements

Impact on transition

The following table summaries the impacts of the adoption of IFRS 16 on the Group's condensed consolidated statement of financial position:

	1 January 2019 (unaudited) RMB'000
Assets	
Property, plant and equipment	(36,362)
Prepaid lease payments	(43,443)
Right-of-use assets	79,805
Total assets	–
Liabilities	
Finance lease payables	(25,064)
Lease liabilities	25,064
Total liabilities	–

There was no impact on retained profits at 1 January 2019.

The following table reconciles the operating lease commitments at 31 December 2018 to opening balance for lease liabilities recognised at 1 January 2019:

	1 January 2019 (unaudited) RMB'000
Operating lease commitment at 31 December 2018 as disclosed in the Group's consolidated financial statements	88
Less: Recognition exemption for leases with less than 12 months of leases term at transition	(88)
Add: Finance lease payables recognised at 31 December 2018	25,064
Lease liabilities recognised at 1 January 2019 (shown under current liabilities)	25,064

Impacts for the period

During the six months ended 30 June 2019, a new tenancy agreement was entered into by the Group in relation to its office premises. The Group recognised approximately RMB198,000 of depreciation charges and approximately RMB11,000 of finance costs from this lease, instead of operating lease expense.

4. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

(a) Disclosure of level in fair value hierarchy:

At 30 June 2019

Description	Fair value measurement using Level 2 (unaudited) RMB'000
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTPL – bills receivable	6,514

4. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosure of level in fair value hierarchy (continued):

At 31 December 2018

Description	Fair value measurement using Level 2 (audited) RMB'000
Recurring fair value measurements:	
Financial assets	
Financial assets at FVTPL – bills receivable	8,800

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

Level 2 fair value measurements

			Fair value	
Description	**Valuation technique**	**Key input**	**30 June 2019 (unaudited) RMB'000**	31 December 2018 (audited) RMB'000
Bills receivable	Discounted cash flows	Discount rate	**6,514**	8,800

There were no changes in the valuation technique used.

5. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the PRC according to the types of goods delivered, and are regularly reviewed by the chief operating decision-maker (the "**CODM**") to allocate resources to the segments and to assess their performance focuses on type of goods delivered.

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

During the six months ended 30 June 2019, the CODM has identified the following two reportable segments under IFRS 8 "Operating Segments". No operating segments have been aggregated to form the following reportable segments.

a. Yarns – manufacturing and trading of yarns

b. Staple fibres – manufacturing and trading of polyester staple fibres

The operations of Jinyuan Textile Co., Ltd. Jiangxi ("**Jiangxi Jinyuan**"),江西華春色紡科技發展有限公司 (for identification purpose, Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ("**Huachun**")) and Treasure Resources Corporation Limited represent the operating and reportable segment of the sales of yarns.

The operation of江西鑫源特種纖維有限公司 (for identification purpose, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**")) represents the operating and reportable segment of the sales of polyester staple fibres.

The Group accounts for intersegment sales and transfer as if the sales or transfers were to third parties, i.e. at current market prices.

Segment assets and liabilities are not reported or used by the CODM.

5. SEGMENT INFORMATION (Continued)

Information about reportable segment profit or loss:

	Yarns (unaudited) RMB'000	Staple Fibres (unaudited) RMB'000	Total (unaudited) RMB'000
Six months ended 30 June 2019			
Revenue from external customers	**812,634**	**34,257**	**846,891**
Intersegment revenue	**–**	**29,951**	**29,951**
Interest income	**936**	**5**	**941**
Interest expense of bank and other borrowings	**(13,811)**	**(1,928)**	**(15,739)**
Interest expense of lease liabilities	**(418)**	**–**	**(418)**
Depreciation and amortisation	**(31,145)**	**(3,134)**	**(34,279)**
Profit/(Loss) of reportable segments	**44,909**	**(9,800)**	**35,109**

	Yarns (unaudited) RMB'000	Staple Fibres (unaudited) RMB'000	Total (unaudited) RMB'000
Six months ended 30 June 2018			
Revenue from external customers	801,434	36,286	837,720
Intersegment revenue	–	34,375	34,375
Interest income	492	7	499
Interest expense of bank and other borrowings	(15,618)	(1,238)	(16,856)
Finance lease charges	(156)	–	(156)
Depreciation and amortisation	(28,947)	(2,351)	(31,298)
Profit/(Loss) of reportable segments	49,491	(3,406)	46,085

5. SEGMENT INFORMATION (Continued)

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

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue		
Total revenue of reportable segments	**876,842**	872,095
Elimination of intersegment revenue	**(29,951)**	(34,375)
Group's revenue	**846,891**	837,720
Profit or loss		
Total profit of reportable segments	**35,109**	46,085
Elimination of intersegment losses	**407**	78
Adjusted for income in relation to government grants	**3,741**	4,581
Unallocated expense, net		
Other income, gains and losses	**81**	(605)
Administrative and other expenses	**(1,337)**	(1,024)
Taxation	**(7,282)**	(5,997)
Group's profit for the period	**30,719**	43,118

6. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials. The Group derives revenue from transfer of goods at a point of time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the six months ended 30 June 2019 is as follows:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
– Sales of yarns	**812,634**	801,434
– Sales of staple fibres	**34,257**	36,286
	846,891	837,720

Information about receivables and contract liabilities from contracts with customers is as follows:

	30 June	31 December
	2019	2018
	(unaudited)	(audited)
	RMB'000	RMB'000
Receivables, which are included in "Trade and other receivables"	**49,991**	21,061
Contract liabilities	**36,316**	28,017
	86,307	49,078

The contract liabilities primarily relate to the advance consideration received from customers for trading of yarn products and related raw materials, for which revenue is recognised at a point of time.

The amount of RMB27,779,000 recognised in contract liabilities at the beginning of the period has been recognised as revenue for the six months ended 30 June 2019.

7. OTHER INCOME

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Interest income	**946**	500
Government grants	**3,741**	4,581
Income from scrap sales	**9,404**	8,203
Rental income	**560**	419
Others	**23**	22
	14,674	13,725

8. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Net foreign exchange gain/(loss)	**26**	(1,057)
Loss on disposal of property, plant and equipment	**(48)**	(590)
Others	**–**	197
	(22)	(1,450)

9. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Interest on bank and other borrowings	**14,222**	16,856
Interest on entrusted loans	**1,517**	–
Interest on lease liabilities	**429**	–
Finance leases charges	**–**	156
	16,168	17,012

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the period	**2,717**	4,748
Deferred tax	**4,565**	1,249
	7,282	5,997

No provision for Hong Kong Profits Tax for the six months ended 30 June 2019 and 2018 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

The tax charge in respect of the current period represents EIT in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries in the PRC.

Jiangxi Jinyuan, the Company's subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2014. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the periods ended 30 June 2019 and 2018.

Huachun and Xinyuan, the Company's subsidiaries, are subject to the EIT rate at 25%.

According to the PRC EIT law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

11. PROFIT FOR THE PERIOD

The Group's profit for the period is stated after charging the following:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Depreciation		
– Owned property, plant and equipment	**32,303**	30,780
– Right-of-use assets	**2,208**	–
Operating lease charges for lease		
– Amortisation of prepaid lease payments	**–**	538
– Land and buildings	**–**	244
Rental expense relating to short-term lease	**88**	–
Amortisation of intangible asset	**–**	17
Cost of inventories sold, including	**769,175**	746,230
– Write down of inventories	**518**	–

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach, under which comparative information is not restated.

12. DIVIDENDS

At a meeting held on 28 August 2019, the directors declared an interim dividend of HK1.5 cents per share. This interim dividend is not reflected as a dividend payable in this unaudited condensed consolidated financial information but will be reflected as an appropriation of reserve for the year ending 31 December 2019.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**35,246**	44,827

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purpose of calculating basic earning per share	**1,252,350**	1,252,350

No diluted earnings per share has been presented as there were no potential dilutive shares outstanding for the six months ended 30 June 2019 and 2018.

14. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment with a cost of approximately RMB12,149,000 (unaudited) (for the year ended 31 December 2018: RMB53,940,000 (audited)). These acquisitions are mainly in relation to its manufacturing plants in the PRC.

Property, plant and equipment decreased by approximately RMB36,362,000 on 1 January 2019 following the adoption of IFRS 16, see note 3 for details.

15. RIGHT-OF-USE ASSETS

As discussed in note 3, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out in note 3.

During the six months ended 30 June 2019, the Group entered into a new tenancy agreement in relation to its office premises for 2 years, and therefore recognised the additions to right-of-use assets of approximately RMB1,187,000 (unaudited).

16. INVENTORIES

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Raw materials	**73,685**	87,137
Work in progress	**20,793**	23,999
Finished goods	**181,700**	137,964
	276,178	249,100

17. TRADE AND OTHER RECEIVABLES

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Trade receivables	**49,991**	21,061
Advance payment to suppliers	**9,679**	7,318
Prepayments and other receivables	**2,674**	1,021
Other tax recoverables	**7,860**	2,324
	70,204	31,724

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

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
0 – 30 days	**38,023**	18,838
31 – 90 days	**10,685**	2,130
91 – 180 days	**804**	85
Over 180 days	**479**	8
	49,991	21,061

18. BILLS RECEIVABLE

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

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
0 – 30 days	**1,422**	3,189
31 – 60 days	**1,355**	1,483
61 – 90 days	**735**	1,249
91 – 120 days	**968**	1,015
121 – 150 days	**250**	658
Over 150 days	**1,784**	1,206
	6,514	8,800

Included in bills receivable at 30 June 2019 was an amount of approximately RMB6,150,000 (unaudited) (at 31 December 2018: RMB7,561,000 (audited)) that were transferred to suppliers by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the bills receivable and the corresponding liabilities.

	Bills receivable endorsed to suppliers with full recourse	
	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Carrying amount of recognised financial assets	**6,150**	7,561
Carrying amount of corresponding liabilities not set-off	**(6,150)**	(7,561)

At 30 June 2019 and 31 December 2018, no bills receivable of the Group were pledged as collaterals for secured bank and other borrowings.

19. TRADE AND OTHER PAYABLES

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Trade payables	**32,269**	66,776
Other payables	**7,106**	6,965
Other tax payables	**14,104**	12,825
Accrued salaries and wages	**14,146**	19,532
Other accrued charges	**93,239**	93,870
Payables for acquisition of property, plant and equipment	**7,839**	14,266
Dividend payables	**243**	243
	168,946	214,477

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

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
0 – 30 days	**19,285**	51,308
31 – 90 days	**4,404**	13,837
91 – 180 days	**7,495**	546
Over 180 days	**1,085**	1,085
	32,269	66,776

20. BILLS PAYABLE

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

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
0 – 30 days	**21,947**	42,492
31 – 90 days	**13,402**	45,965
91 – 180 days	**82,166**	45,461
Over 180 days	**95,285**	39,862
	212,800	173,780

21. BANK AND OTHER BORROWINGS

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Secured	**378,051**	328,760
Unsecured	**50,276**	61,339
	428,327	390,099
Amount payable within one year	**369,681**	365,923
Amount payable over one year	**58,646**	24,176
	428,327	390,099

At 30 June 2019, certain assets of the Group have been pledged as collateral for secured bank and other borrowings.

The directors estimate that the carrying amounts of the Group's bank and other borrowings are not materially different from their fair value at 30 June 2019.

22. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2018 (audited) and 30 June 2019 (unaudited)	**10,000,000**	1,000,000

	Number of shares '000	HK$'000	RMB'000
Issued and fully paid:			
At 31 December 2018 (audited) and 30 June 2019 (unaudited)	**1,252,350**	**125,235**	**101,989**

23. CAPITAL COMMITMENTS

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Acquisition of property, plant and equipment and construction of new production facilities and infrastructure	**837**	6,168

24. RELATED PARTY TRANSACTIONS

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

(a) Transactions with a related company

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sales of finished goods to		
– 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co. Limited ("Jiangxi Baoyuan")	**6,760**	14,678
Purchase of raw materials from		
– Jiangxi Baoyuan	**171**	157

Jiangxi Baoyuan is considered as a related company of the Group since 80% of its equity interest is owned by a close family member of the Company's executive directors.

(b) Compensation of Key management personnel

The remuneration of directors of the Company and other members of key management of the Group during the six months ended 30 June 2019 is as follows:

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Short term benefits	**1,822**	3,769
Post-employment benefits	**30**	28
	1,852	3,797

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

At 30 June 2019, included in accrued salaries and wages was an amount of approximately RMB277,000 (unaudited) (at 31 December 2018: RMB113,000 (audited)) being accrued remuneration in relation to key management personnel which is unsecured, interest-free and settled in cash.

At 30 June 2019, included in prepayments and other receivables was an amount of approximately RMB39,000 being advance of remuneration to a director (at 31 December 2018: RMB218,000).

24. RELATED PARTY TRANSACTIONS (Continued)

(c) Other transactions with related parties

At 30 June 2019 and 2018, certain bank borrowings were guaranteed by an executive director of the Company and a close family member of the executive directors of the Company.

(d) Balance with a related party

	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000
Entrusted loan payable	**50,000**	50,000

On 4 December 2018, the Group entered into a two-year entrusted loan agreement with a director – Mr. Zheng Yongxiang and a bank in which Mr. Zheng Yongxiang provided a loan of RMB50,000,000 to the Group through this entrusted bank. The entrusted loan is unsecured and arranged at 6% fixed interest rate per annum. The principal amount is repayable on 19 October 2020.

25. CONTINGENT LIABILITIES

At 30 June 2019, the Group did not have any significant contingent liabilities (at 31 December 2018: Nil).

26. EVENTS AFTER THE REPORTING PERIOD

On 4 July 2019, the Group entered into an agreement to acquire 26% of the paid up capital of Xinyuan, an existing PRC subsidiary of the Group, from an non-controlling party at a cash consideration of RMB18,200,000. The acquisition was completed on 8 July 2019 and the percentage of ownership interest in Xinyuan was increased from 51% to 77%.

27. APPROVAL OF FINANCIAL INFORMATION

The condensed consolidated financial information was approved and authorised for issue by the Board of Directors on 28 August 2019.