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CHINA WEAVING MATERIALS HOLDINGS LIMITED

中國織材控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3778)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of China Weaving Materials Holdings Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six month ended 30 June	
		2020	2019
		(unaudited)	(unaudited)
	Note	RMB'000	RMB'000
Revenue	4	556,566	846,891
Cost of sales		(530,763)	(769,175)
Gross profit		25,803	77,716
Other income	5	10,477	14,674
Other gains and losses		(52)	(22)
Distribution and selling expenses		(11,012)	(12,919)
Administrative expenses		(23,667)	(25,280)
Finance costs		(15,508)	(16,168)
(Loss)/Profit before tax		(13,959)	38,001
Income tax credit/(expense)	6	856	(7,282)
(Loss)/Profit and total comprehensive income for the period	7	(13,103)	30,719
(Loss)/Profit and total comprehensive income for the period attributable to:			
Owners of the Company		(10,794)	35,246
Non-controlling interests		(2,309)	(4,527)
		(13,103)	30,719
(Loss)/Earnings per share	9		
Basic		(RMB0.86 cents)	RMB2.81 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2020 (unaudited) <i>RMB'000</i>	31 December 2019 (audited) <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		928,143	951,945
Right-of-use assets		77,721	80,668
Deposits on acquisition of property, plant and equipment		594	101
Goodwill		20,617	20,617
		1,027,075	1,053,331
Current assets			
Inventories		231,171	205,787
Trade and other receivables	10	31,914	47,852
Bills receivable		6,322	10,217
Financial assets at fair value through profit or loss		29,067	–
Pledged bank deposits		102,851	33,807
Restricted bank deposit		–	500
Time deposit		3,000	–
Cash and bank balances		95,167	135,585
		499,492	433,748
Current liabilities			
Trade and other payables	11	192,242	285,069
Contract liabilities		40,087	16,920
Bills payable		192,420	81,146
Deferred income		264	227
Lease liabilities		19,577	21,605
Bank and other borrowings		393,041	370,591
Entrusted loan payable		50,000	50,000
Current tax liabilities		6,027	7,646
		893,658	833,204
Net current liabilities		(394,166)	(399,456)
Total assets less current liabilities		632,909	653,875

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Non-current liabilities		
Deferred income	6,962	7,256
Lease liabilities	1,872	2,652
Bank and other borrowings	38,786	44,576
Deferred tax liabilities	31,961	33,203
	<u>79,581</u>	<u>87,687</u>
NET ASSETS	<u><u>553,328</u></u>	<u><u>566,188</u></u>
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	101,989	101,989
Reserves	456,369	466,920
	<u>558,358</u>	<u>568,909</u>
Non-controlling interests	<u>(5,030)</u>	<u>(2,721)</u>
TOTAL EQUITY	<u><u>553,328</u></u>	<u><u>566,188</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2020

1. 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.

This unaudited condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2019. The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the audited consolidated financial statements of the Group for the year ended 31 December 2019 and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2020.

The Group continues to adopt the going concern basis in preparing its unaudited condensed consolidated financial information. At 30 June 2020, the Group’s current liabilities exceeded its current assets by approximately RMB394,166,000. 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 unaudited 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 unaudited condensed consolidated financial information authorised for issue, the Group’s bankers agreed to renew bank borrowings amounting to approximately RMB10,000,000 currently included in current liabilities at 30 June 2020.
 - (ii) Undrawn banking facilities amounting to approximately RMB4,567,000.
 - (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB10,000,000.
 - (iv) Certain short terms bank loans currently included in current liabilities at 30 June 2020 will be rollover with the lenders’ approval.
 - (v) Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.
- (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 unaudited 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 unaudited condensed consolidated financial information.

2. 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 effective for its accounting year beginning on 1 January 2020. IFRSs comprise International Financing Reporting Standards (“**IFRS**”); International Accounting Standards; and Interpretations. The adoption of these new development of IFRSs does not have any impact on the Group’s unaudited condensed consolidated financial information. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The accounting policies applied in this unaudited condensed consolidated financial information are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019.

3. 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 People’s Republic of China (“**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 2020, 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.

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 2020			
Revenue from external customers	499,373	57,193	556,566
Intersegment revenue	–	21,147	21,147
Interest income	528	5	533
Interest expense	(13,401)	(2,080)	(15,481)
Depreciation	(31,450)	(1,376)	(32,826)
Other material non-cash item: Allowance for inventories	–	(3,857)	(3,857)
Loss of reportable segments	<u>(3,920)</u>	<u>(10,015)</u>	<u>(13,935)</u>
	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	(14,229)	(1,928)	(16,157)
Depreciation	(31,145)	(3,134)	(34,279)
Other material non-cash item: Allowance for inventories	–	(518)	(518)
Profit/(Loss) of reportable segments	<u>44,909</u>	<u>(9,800)</u>	<u>35,109</u>

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

	Six months ended 30 June	
	2020	2019
	(unaudited) <i>RMB'000</i>	(unaudited) <i>RMB'000</i>
Revenue		
Total revenue of reportable segments	577,713	876,842
Elimination of intersegment revenue	<u>(21,147)</u>	<u>(29,951)</u>
Group's revenue	<u><u>556,566</u></u>	<u><u>846,891</u></u>
Profit or loss		
Total (loss)/profit of reportable segments	(13,935)	35,109
Elimination of intersegment (gains)/losses	(1,180)	407
Adjusted for income in relation to government grants	3,361	3,741
Unallocated amounts:		
Other income, gains and losses	(725)	81
Administrative and other expenses	(1,480)	(1,337)
Income tax credit/(expense)	<u>856</u>	<u>(7,282)</u>
Group's (loss)/profit for the period	<u><u>(13,103)</u></u>	<u><u>30,719</u></u>

4. 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 in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the six months ended 30 June 2020 is as follows:

	Six months ended 30 June	
	2020	2019
	(unaudited) <i>RMB'000</i>	(unaudited) <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15 Revenue from Contracts with Customers		
Disaggregated by major products		
– Sales of yarns	499,373	812,634
– Sales of staple fibres	<u>57,193</u>	<u>34,257</u>
	<u><u>556,566</u></u>	<u><u>846,891</u></u>

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	557	946
Government grants	3,361	3,741
Income from scrap sales	6,045	9,404
Rental income	486	560
Others	28	23
	<u>10,477</u>	<u>14,674</u>

6. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC Enterprise Income Tax (“EIT”)		
Provision for the period	386	2,717
Deferred tax	<u>(1,242)</u>	<u>4,565</u>
	<u>(856)</u>	<u>7,282</u>

No provision for Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019 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 2020 and 2019.

Huachun, the Company’s subsidiary, was subjected to the EIT rate at 25% for the period ended 30 June 2019. Since 16 September 2019, Huachun has been recognised as a state-encouraged high-new technology enterprise. As such, Huachun is entitled to a preferential tax rate of 15% in 2019, 2020 and 2021.

Xinyuan, the Company’s subsidiary, is 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.

7. (LOSS)/PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Depreciation		
– Owned property, plant and equipment	30,190	32,303
– Right-of-use assets	2,947	2,208
Rental expense relating to short-term lease	–	88
Cost of inventories sold, including	530,763	769,175
– Allowance for inventories	3,857	518
	567,757	804,502

8. DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020.

At a meeting held on 28 August 2019, the directors declared an interim dividend of HK1.5 cents per share. This interim dividend was not reflected as a dividend payable in the unaudited condensed consolidated financial information for the six months ended 30 June 2019 but reflected as an appropriation of reserve for the year ended 31 December 2019.

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of calculating basic (loss)/earnings per share ((loss)/profit for the period attributable to owners of the Company)	(10,794)	35,246

Six months ended 30 June
2020 2019
(unaudited) (unaudited)
'000 *'000*

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	1,252,350	1,252,350
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No diluted (loss)/earnings per share has been presented as there were no potential dilutive shares outstanding for the six months ended 30 June 2020 and 2019.

10. TRADE AND OTHER RECEIVABLES

	30 June 2020 (unaudited) <i>RMB'000</i>	31 December 2019 (audited) <i>RMB'000</i>
Trade receivables	17,765	26,234
Advance payment to suppliers	4,380	9,254
Prepayments and other receivables	1,767	1,742
Other tax recoverables	8,002	10,622
	31,914	47,852

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 2020 (unaudited) <i>RMB'000</i>	31 December 2019 (audited) <i>RMB'000</i>
0 – 30 days	12,058	21,389
31 – 90 days	3,922	2,650
91 – 180 days	207	1,272
181 – 365 days	1,034	919
Over 365 days	544	4
	17,765	26,234

11. TRADE AND OTHER PAYABLES

	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Trade payables	31,406	104,605
Other payables	13,178	22,202
Other tax payables	13,070	13,081
Accrued salaries and wages	15,546	18,893
Other accrued charges	116,475	119,208
Payables for acquisition of property, plant and equipment	2,532	6,802
Dividend payables	35	278
	192,242	285,069

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 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
0 – 30 days	23,854	36,356
31 – 90 days	5,786	55,883
91 – 180 days	882	11,324
Over 180 days	884	1,042
	31,406	104,605

12. THE IMPACT OF COVID-19

The COVID-19 pandemic has evolved rapidly during the first six months of 2020, with the number of cases reported around the world continue to increase. Travel restrictions and various quarantine measures imposed by various governments to contain the virus have adversely affected the economic activities. The selling prices and sales volume of yarn products have been adversely affected. In response to this adversity, the Group has adjusted its product mix and shifted its production to mass-market products which are geared to downstream customers in the PRC domestic market. The Group has a more flexible pricing strategy in response to the current market conditions to sustain sales volume.

Given the uncertainty in the rapidly changing market and economic conditions related to the COVID-19 pandemic, the Group will continue to monitor the development of COVID-19 and evaluate the nature and extent of the impact to the Group's financial position and performance.

MARKET OVERVIEW

In the first half of 2020, the outbreak of the COVID-19 pandemic (the “**Pandemic**”) has dealt a serious blow to the global economy, driving it into the most serious recession since the Second World War. The GDP of the United States (the “**US**”) has recorded a decrease of around 5.0% and 32.9% for the first quarter and second quarter respectively. The European Union (the “**EU**”) suffered less but still recorded a decrease of around 3.2% and 11.9% for the first quarter and second quarter respectively. The GDP of the People’s Republic of China (the “**PRC**”) decreased 6.8% in the first quarter but turned around and increased 3.2% in the second quarter. The Pandemic continues to plague the global economy as at the date of this announcement.

The Pandemic has hugely affected the demand for crude oil as governments around the world imposed travel restrictions and various quarantine measures in order to contain the outbreak of the Pandemic. The international crude oil price dropped from around US\$60 per barrel at the end of 2019 to around US\$40 per barrel at the end of June 2020. The downward moving crude oil price has pushed down the prices of oil related downstream products, including raw materials for polyester yarn products. Due to lower raw material prices, selling prices of polyester related yarn products have been under pressure.

The international cotton prices dropped from around US70 cents per pound at the end of 2019 to below US50 cents per pound at the end of the first quarter of 2020 and slowly climbed back to around US60 cents per pound at the end of June 2020. The domestic cotton prices in the PRC have been trading at similar pattern with that of international cotton. The PRC domestic cotton prices dropped from around RMB13,500 per tonne at the end of 2019 to around RMB11,000 per tonne around the end of the first quarter of 2020 and slowly climbed back to around RMB12,000 per tonne at the end of June 2020. The PRC government had restarted the collection of cotton reserve by the end of 2019 but there has not been any significant effect on the prices of PRC domestic cotton.

In the first quarter of 2020, the prevention and control measures taken by the PRC government were proved to be effective and the COVID-19 has been under control in the second quarter and resulted in a rebound of the GDP. The rest of the world experienced major outbreak of the Pandemic around the end of the first quarter. Up to the present moment, there have been some signs of slowdown of the Pandemic in certain European countries but the US and most parts of the world are still struggling to contain the Pandemic. Against these backgrounds, the global economy continues to face severe adversity.

BUSINESS REVIEW

The sales volume of yarn products of the Group decreased by 23.5% from approximately 57,999 tonnes for the six months ended 30 June 2019 to approximately 44,355 tonnes for the six months ended 30 June 2020. The decrease in sales volume was mainly due to the adverse market conditions caused by the Pandemic. The production volume of yarn products of the Group decreased by 20.5% from approximately 61,652 tonnes for the six months ended 30 June 2019 to approximately 49,041 tonnes for the six months ended 30 June 2020. The decrease in production volume was mainly due to the delay in resumption of production after the Chinese New Year holidays. The delay was a result of the public health emergency and travel restriction measures undertaken by the PRC government in the first quarter of 2020 in order to contain the spread of the Pandemic. The revenue from the yarn products of the Group decreased by 38.5% to approximately RMB499.4 million for the six months ended 30 June 2020 as compared to RMB812.6 million for the six months ended 30 June 2019. The gross profit and the loss attributable to the owners of the Company for the six months ended 30 June 2020 were approximately RMB25.8 million and approximately RMB10.8 million, respectively.

The Group's subsidiary, Jiangxi Xinyuan Special Fibres Company Limited 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 increased by 64.3% from approximately 9,016 tonnes for the six months ended 30 June 2019 to approximately 14,816 tonnes for the six months ended 30 June 2020. The production volume of PSF decreased by 19.4% from approximately 13,694 tonnes for the six months ended 30 June 2019 to approximately 11,040 tonnes for the six months ended 30 June 2020.

The Pandemic has dealt a very serious economic blow to the US and the EU regions in the second quarter and the major export markets for the PRC apparel industries were seriously hammered. On the other hand, the PRC has been able to contain the Pandemic in the second quarter and there were signs of economic recovery in the domestic market. In view of the 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. The Group continued to put more emphasis on 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 the EU which are currently under severe economic downturn. The Group is also adapting a more flexible pricing strategy in response to the current market conditions with a view to sustain sales volume. The above measures may increase the pressure on gross margin and profitability for the second half of the year but it may achieve a healthier inventory level and make the Group more endurable under harsh market conditions.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2020 was approximately RMB556.6 million, representing a decrease of approximately RMB290.3 million, or 34.3%, 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 2020		Six months ended 30 June 2019	
	RMB'000		RMB'000	
Polyester yarns	206,840	37.2%	265,500	31.3%
Polyester-cotton and viscose-cotton blended yarns	206,829	37.2%	352,818	41.7%
Cotton yarns	11,632	2.0%	20,882	2.4%
Viscose and stretchable core viscose yarns	26,026	4.7%	76,864	9.1%
Grey and deep grey mélange yarns	48,046	8.6%	95,450	11.3%
Polyester staple fibre	57,193	10.3%	34,257	4.0%
Others	–	–	1,120	0.2%
	<u>556,566</u>	<u>100.0%</u>	<u>846,891</u>	<u>100.0%</u>

The decrease in the revenue of the Group for the six months ended 30 June 2020 was mainly attributable to the decrease in sales volume from approximately 57,999 tonnes for the six months ended 30 June 2019 to approximately 44,355 tonnes for the six months ended 30 June 2020. The average selling price of yarn products of the Group also decreased 19.5% from approximately RMB13,992 per tonne for the six months ended 30 June 2019 to approximately RMB11,259 per tonne for the six months ended 30 June 2020.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB77.7 million for the six months ended 30 June 2019 to approximately RMB25.8 million for the six months ended 30 June 2020. The gross profit margin of the Group decreased from approximately 9.2% for the six months ended 30 June 2019 to approximately 4.6% for the six months ended 30 June 2020. The decrease in gross profit was mainly due to the decrease in sales volume and average selling prices of the yarn products. Due to the outbreak of the Pandemic, the market was seriously affected in the first half of 2020.

Other Income

Other income of the Group decreased from approximately RMB14.7 million for the six months ended 30 June 2019 to approximately RMB10.5 million for the six months ended 30 June 2020, representing a decrease of approximately RMB4.2 million or 28.6%. The decrease in other income was mainly due to decrease in income from scrap sales.

Distribution and Selling Expenses

Distribution and selling expenses of the Group decreased from approximately RMB12.9 million for the six months ended 30 June 2019 to approximately RMB11.0 million for the six months ended 30 June 2020, representing a decrease of approximately RMB1.9 million or 14.7%. The decrease in distribution and selling expenses was mainly due to the decrease in sales volume. Distribution and selling expenses as a percentage of revenue of the Group was approximately 2.0% for the six months ended 30 June 2020 (six months ended 30 June 2019: 1.5%).

Administrative Expenses

Administrative expenses of the Group decreased from approximately RMB25.3 million for the six months ended 30 June 2019 to approximately RMB23.7 million for the six months ended 30 June 2020, representing a decrease of approximately RMB1.6 million or 6.3%. The decrease in administrative expenses was mainly due to the decrease in certain government taxes and travel related expenses. Administrative expenses as a percentage of revenue of the Group was approximately 4.3% for the six months ended 30 June 2020 (six months ended 30 June 2019: 3.0%).

Finance Costs

Finance costs of the Group decreased from approximately RMB16.2 million for the six months ended 30 June 2019 to approximately RMB15.5 million for the six months ended 30 June 2020, representing a decrease of 4.3% or approximately RMB0.7 million. The decrease in the Group's finance costs was mainly due to lower interest rates as a result of the lowering of the loan prime rate in the PRC in the first half of 2020.

Income Tax Credit/(Expense)

The Group's income tax credit for the six months ended 30 June 2020 was approximately RMB0.9 million, as compared to an income tax expense of approximately RMB7.3 million for the corresponding period in 2019. The income tax credit arose mainly due to the net effect of deferred tax credit arising from the recognition of deferred tax assets of approximately RMB2.1 million in relation to unused tax losses, the recognition of deferred tax liabilities of approximately RMB0.8 million in respect of certain accelerated tax depreciation and the PRC enterprise income tax provision for the period of approximately RMB0.4 million.

(Loss)/Profit attributable to Owners of the Company and Net (Loss)/Profit Margin

Loss attributable to owners of the Company for the six months ended 30 June 2020 was approximately RMB10.8 million as compared to a profit attributable to owners of the Company of approximately RMB35.2 million for the six months ended 30 June 2019. The net loss margin of the Group for the six months ended 30 June 2020 was approximately 1.9% as compared to a net profit margin of approximately 4.2% for the six months ended 30 June 2019. The Group's net loss margin was mainly due to the decrease in gross profit.

(Loss)/Earnings per Share

The basic loss per share of the Company for the six months ended 30 June 2020 was approximately RMB0.86 cents as compared to approximately RMB2.81 cents basic earnings per share for the six months ended 30 June 2019. The loss per share of the Company was due to the net loss for the six months ended 30 June 2020.

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 2020, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB95.2 million (31 December 2019: RMB135.6 million) and time deposit of approximately RMB3.0 million (31 December 2019: Nil). The Group's cash and bank balances were mainly held in Hong Kong Dollars ("HK\$"), US Dollars ("US\$") and RMB.

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB and HK\$. At 30 June 2020, the Group's interest-bearing borrowings amounted to approximately RMB503.3 million (31 December 2019: RMB489.4 million), RMB462.6 million (91.9%) of which (31 December 2019: RMB442.2 million (90.4%)) 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 RMB740.9 million in aggregate (31 December 2019: RMB699.1 million). The share capital of a subsidiary 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 payable to total assets, was approximately 45.6% at 30 June 2020 (31 December 2019: 38.4%). Net current liabilities and net assets at 30 June 2020 were approximately RMB394.2 million (31 December 2019: RMB399.5 million) and RMB553.3 million (31 December 2019: RMB566.2 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, other receivables, bank and other borrowings, lease liabilities and other payables, which mainly expose the Group to risks in HK\$ and US\$. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 30 June 2020 were approximately RMB5.0 million (31 December 2019: RMB5.3 million) and RMB50.8 million (31 December 2019: RMB48.0 million), respectively. The Group had not used any financial instrument for hedging purposes during the six months ended 30 June 2020.

Contingent Liabilities

As at 30 June 2020, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 30 June 2020, the Group had a total of 2,756 employees (31 December 2019: 3,182). Remuneration for employees, including 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 2020, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

Looking forward to the second half of 2020, the global economy is unlikely to return to normal quickly in view of the Pandemic. As there are no signs of containment of the Pandemic for most of the western countries, the export markets of the textile and apparel enterprises of the PRC would remain very difficult. Nevertheless, the PRC government has been able to contain the Pandemic in the second quarter of 2020 and reopened the economy. With the implementation of relief measures and policies to promote internal consumptions by the PRC government, the domestic apparel market of the PRC has shown signs of recovery. Moreover, the international crude oil prices and international cotton prices have stabilized since the end of the second quarter. Such stabilization has relieved some downward price pressure on the raw materials for polyester related yarns and cotton related yarns products and provided some relief for the yarns products markets accordingly.

The Group will continue to closely monitor the market conditions and take necessary measures to adjust its production capacities, product mix and pricing strategy. The Group will continue to emphasize industrial safety and seek improvement in efficiency in the production process by means of automation. The Group will continue to aim at optimal production capacities while keeping an eye on sales and inventory level. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its long term 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.

DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020.

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 during the six months ended 30 June 2020.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2020, 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 Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

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 conduct a review for the need of an IA function on an annual basis.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2020.

AUDIT COMMITTEE

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 2020.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and on the website of the Company at www.chinaweavingmaterials.com. The interim report of the Company for the six months ended 30 June 2020 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff members for their dedication and hard work, our customers for their confidence and support for our products, our shareholders for their trust and support and various government bodies for their support.

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

The PRC, 28 August 2020

As at the date of this announcement, the Board comprises, Mr. Zheng Yongxiang as the executive Director; Mr. Zheng Hong as the non-executive Director; and Ms. Zhang Baixiang, Mr. Xu Yiliang and Mr. Li Guoxing as the independent non-executive Directors.