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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 2019

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 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2019 (unaudited)** *RMB'000*	31 December 2018 (audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**1,025,878**	1,082,457
Prepaid lease payments		**–**	42,364
Right-of-use assets		**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		**276,178**	249,100
Trade and other receivables	10	**70,204**	31,724
Bills receivable		**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	11	**168,946**	214,477
Contract liabilities		**36,316**	28,017
Bills payable		**212,800**	173,780
Deferred income		**227**	227
Finance lease payables		**–**	25,064
Bank and other borrowings		**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 (CONTINUED)

	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	**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		
Equity attributable to owners of the Company		
Share capital	**101,989**	101,989
Reserves	**525,416**	490,170
	627,405	592,159
Non-controlling interests	**24,835**	29,362
TOTAL EQUITY	**652,240**	621,521

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2019

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.

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.

(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.

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 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 standard, interpretation or amendment that has been issued but is 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 information.

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.

(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	**1 January 2019**
	RMB'000	***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**

Significant accounting policies

The Group recognsies 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 expedient 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.

(c) Impacts of financial statements

Impact on transition

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

	1 January 2019 *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 of lease liabilities recognised at 1 January 2019:

	1 January 2019 *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.

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 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 ("**Treasure Resources**") 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 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

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

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 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.

5. 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

6. 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.

7. 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.

8. 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.

9. 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 year attributable to owners of the Company)	**35,246**	44,827

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

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

10. 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

11. 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

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 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 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 the international cotton in the second quarter. Although there have 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 the 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 whole.

BUSINESS REVIEW

The sales volume of yarn products of 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.

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 but 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 adapting 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 it could achieve a healthier inventory level and make the Group 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.

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 increase in income from scrap sales and interest income on bank deposits but partly offset by 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 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 he decrease in gross profit.

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.

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, 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 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 adapted 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.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

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 "**2019 Interim Dividend**"). The register of members of the Company will be closed from Monday, 16 September 2019 to Tuesday, 17 September 2019 (both days inclusive). During this period, no transfer of shares will be registered. In order to qualify for the 2019 Interim Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 13 September 2019. The 2019 Interim Dividend will be paid on or about Monday, 14 October 2019 to those shareholders on the register of members on Tuesday, 17 September 2019.

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 2019.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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.

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 2019.

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 2019.

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 2019 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

Hong Kong, 28 August, 2019

As at the date of this announcement, the Board comprises Mr. Zheng Hong and Mr. Zheng Yongxiang as the executive Directors; Ms. Zhang Baixiang, Mr. Xu Yiliang and Mr. Ng Wing Ka, BBS, JP as the independent non-executive Directors.