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 2018

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 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2018	2017
		(unaudited)	(unaudited)
	Note	***RMB'000***	*RMB'000*
Revenue	*5*	**837,720**	706,394
Cost of sales		**(746,230)**	(643,918)
Gross profit		**91,490**	62,476
Other income	*6*	**13,725**	11,428
Other gains and losses	*7*	**(1,450)**	16,618
Distribution and selling expenses		**(11,924)**	(11,680)
Administrative expenses		**(25,714)**	(24,426)
Finance costs		**(17,012)**	(29,531)
Profit before tax		**49,115**	24,885
Income tax expense	*8*	**(5,997)**	(4,704)
Profit and total comprehensive income for the period	*9*	**43,118**	20,181
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**44,827**	22,319
Non-controlling interests		**(1,709)**	(2,138)
		43,118	20,181
Earnings per share	*11*		
Basic		**RMB3.58 cents**	RMB1.78 cents
Diluted		**RMB3.58 cents**	RMB1.14 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2018 (unaudited) *RMB'000***	31 December 2017 (audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**1,078,138**	1,092,147
Prepaid lease payments		**42,903**	43,279
Intangible asset		**–**	17
Deposits on acquisition of property, plant and equipment		**2,032**	1,163
Goodwill		**20,617**	20,617
Deferred tax assets		**2,320**	2,368
		1,146,010	1,159,591
Current assets			
Inventories		**251,660**	244,793
Trade and other receivables	*12*	**52,908**	34,123
Bills receivable		**16,785**	21,834
Prepaid lease payments		**1,079**	1,075
Pledged bank deposits		**71,481**	46,276
Cash and bank balances		**53,974**	57,796
		447,887	405,897
Current liabilities			
Trade and other payables	*13*	**296,950**	335,203
Bills payable		**173,744**	121,824
Deferred income		**227**	227
Finance lease payable		**16,648**	2,875
Bank borrowings		**445,213**	462,649
Current tax liabilities		**9,173**	8,462
		941,955	931,240
Net current liabilities		**(494,068)**	(525,343)
Total assets less current liabilities		**651,942**	634,248

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	30 June 2018 (unaudited) *RMB'000*	31 December 2017 (audited) *RMB'000*
Non-current liabilities		
Deferred income	**7,596**	7,710
Bank borrowings	**38,829**	65,340
Deferred tax liabilities	**20,910**	19,709
	67,335	92,759
NET ASSETS	**584,607**	541,489
Capital and reserves		
Share capital	**101,989**	101,989
Reserves	**454,688**	409,861
Equity attributable to owners of the Company	**556,677**	511,850
Non-controlling interests	**27,930**	29,639
TOTAL EQUITY	**584,607**	541,489

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2018

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 2018, the Group had net current liabilities of approximately RMB494,068,000. 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 RMB227,100,000 currently included in current liabilities at 30 June 2018.

   (ii) Undrawn banking facilities amounting to approximately RMB27,914,000.

   (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB32,000,000.

   (iv) Certain existing prepaid land lease and property, plant and equipment 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 2017 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 2017 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 2018. IFRSs comprise International Financing Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations.

The Group has initially adopted IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") from 1 January 2018. The impact of the adoption of IFRS 9 and IFRS 15 have been summarised below. A number of other new or revised IFRSs that are effective from 1 January 2018 do not have a material effect on the Group's condensed consolidated financial information.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39") that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies. As permitted by the transitional provisions of IFRS 9, the Group was elected not to restate comparative figures. There is no impact of transition to IFRS 9 on retained earnings before 1 January 2018.

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

(a) those to be measured subsequently at fair value through other comprehensive income or fair value through profit or loss, and

(b) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Trade and bills receivables that were classified as loans and receivables under IAS 39 are now classified as amortised cost.

For trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Apart from the above, the adoption of IFRS 9 does not have a material effect on the Group's condensed consolidated financial information as the amount of impairment measured under the expected credit loss impairment model is immaterial.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognsied. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. There is no impact of transition to IFRS 15 on retained earnings before 1 January 2018.

Previously, revenue from the sale of manufactured goods and trading of raw materials was generally recognised at a point in time when the risks and rewards of ownership of goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. IFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy had no material impact on opening balances as at 1 January 2018.

3. NEW AND REVISED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that have been issued but are not yet effective. The Group will adopt the new standards and amendments to standards on the respective effective dates.

The Group has the following updates to the information provided in the last annual financial statements about the possible impacts of the below new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16, effective on or after 1 January 2019, replaces IAS 17 Leases and related interpretations. For lessees the distinction between operating leases and finance leases is removed. Lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets).

The standard will affect primarily the accounting of the Group's office property lease, which is currently classified as operating lease. The Group's future minimum lease payments under non-cancellable operating leases for its office property amounted to approximately RMB339,000 at 30 June 2018. The Group will perform a more detailed assessment in order to determine the new assets and liabilities arising from its operating lease commitments after taking into account the transition reliefs available in IFRS 16 and the effects of discounting.

4. 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 2018, 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 2018			
Revenue from external customers	**801,434**	**36,286**	**837,720**
Intersegment revenue	**–**	**34,375**	**34,375**
Interest income	**492**	**7**	**499**
Interest expense	**(15,618)**	**(1,237)**	**(16,855)**
Depreciation and amortisation	**(28,947)**	**(2,351)**	**(31,298)**
Profit/(Loss) of reportable segments	**49,491**	**(3,406)**	**46,085**

	Yarns (unaudited) *RMB'000*	Staple Fibres (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
Six months ended 30 June 2017			
Revenue from external customers	698,925	7,469	706,394
Intersegment revenue	–	17,694	17,694
Interest income	356	4	360
Interest expense	(28,461)	(1,011)	(29,472)
Depreciation and amortisation	(26,931)	(2,321)	(29,252)
Profit/(Loss) of reportable segments	27,297	(4,482)	22,815

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Revenue		
Total revenue of reportable segments	**872,095**	724,088
Elimination of intersegment revenue	**(34,375)**	(17,694)
Group's revenue	**837,720**	706,394
Profit or loss		
Total profit of reportable segments	**46,085**	22,815
Elimination of intersegment losses	**78**	119
Adjusted for income in relation to government grants	**4,581**	2,997
Unallocated expense, net		
Other income, gains and losses	**(605)**	(130)
Administrative and other expenses	**(1,024)**	(916)
Taxation	**(5,997)**	(4,704)
Group's profit for the period	**43,118**	20,181

5. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials.

Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

6. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**500**	361
Government grants	**4,581**	2,997
Income from scrap sales	**8,203**	7,587
Rental income	**419**	318
Others	**22**	165
	13,725	11,428

7. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Fair value gain on derivative component of convertible bond	**–**	14,492
Net foreign exchange (loss)/gain	**(1,057)**	3,613
Loss on disposal of property, plant and equipment	**(590)**	(26)
Loss on early redemption of note instruments	**–**	(210)
Realised gain on financial assets at fair value through profit or loss	**–**	75
Unrealised loss on financial liabilities at fair value through profit or loss	**–**	(1,326)
Others	**197**	–
	(1,450)	16,618

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")		
Provision for the period	**4,748**	3,971
Deferred tax	**1,249**	733
	5,997	4,704

No provision for Hong Kong Profits Tax for the six months ended 30 June 2018 and 2017 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, had 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 2018 and 2017.

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

The Group is subject to the PRC withholding tax of 10% on the gross interest income from its PRC subsidiaries to the Company.

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.

9. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Depreciation	**30,780**	28,717
Operating lease charges		
Amortisation of prepaid lease payments	**538**	545
Land and buildings	**244**	258
Amortisation of intangible asset	**17**	25
Cost of inventories sold	**746,230**	643,918

10. 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 2018 and 2017.

11. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	(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)	**44,827**	22,319
Finance costs saving on conversion of convertible bond outstanding	**–**	11,536
Effect of exchange gain relating to dilutive potential ordinary shares	**–**	(2,436)
Effect of fair value gain on derivative component of convertible bond	**–**	(14,492)
Earnings for the purpose of calculating diluted earnings per share	**44,827**	16,927

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,252,350**	1,252,350
Effect of dilutive potential ordinary shares arising from convertible bond outstanding	**–**	227,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,252,350**	1,479,350

12. TRADE AND OTHER RECEIVABLES

	30 June 2018	31 December 2017
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Trade receivables		
– Third parties	**15,068**	11,011
– A related company *(Note)*	**1,067**	350
	16,135	11,361
Advance payment to suppliers	**23,919**	8,868
Prepayments and other receivables	**967**	2,212
Other tax recoverables	**11,887**	11,682
	52,908	34,123

Note: At 30 June 2018, the trade receivable due from a related company – 江西寶源彩紡有限公司 (for identification purpose, Jiangxi Baoyuan Colourful Textile Co. Limited ("Jiangxi Baoyuan")) is unsecured, interest-free and conducted on cash on delivery basis. Jiangxi Baoyuan is considered as related company of the Group since 80% of its equity interest is owned by a close family member of the executive directors.

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 2018 (unaudited) *RMB'000*	31 December 2017 (audited) *RMB'000*
0 – 30 days	**13,919**	9,172
31 – 90 days	**2,018**	1,620
91 – 180 days	**109**	569
Over 270 days	**89**	–
	16,135	11,361

13. TRADE AND OTHER PAYABLES

	30 June 2018 (unaudited) *RMB'000*	31 December 2017 (audited) *RMB'000*
Trade payables	**128,196**	56,734
Other payables	**24,410**	14,306
Other tax payables	**12,850**	13,314
Accrued for salaries and wages	**13,871**	16,275
Other accrued charges	**80,220**	83,469
Payables for acquisition of property, plant and equipment	**8,388**	12,170
Deposits from customers	**28,772**	13,092
Dividend payables	**243**	243
Accrued interests on consideration payables	**–**	3,600
Amounts due to related companies *(Note)*	**–**	122,000
	296,950	335,203

Note: At 31 December 2017, the amounts due to related companies, Jiangxi Baoyuan and 奉新寶誠房地產有限公司 (for identification purpose, Fengxin Baocheng Real Estate Limited ("Fengxin Baocheng")) of approximately RMB109,000,000 and RMB13,000,000 respectively are unsecured, interest-free and repayable on demand. 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. Fengxin Baocheng is considered as a related company of the Group since 51% of its equity interest is held by an executive director of the Company. The amounts due to related companies were fully repaid by the Group during the six months ended 30 June 2018.

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 2018 (unaudited) *RMB'000*	31 December 2017 (audited) *RMB'000*
0 – 30 days	**75,311**	45,593
31 – 90 days	**45,756**	10,237
Over 90 days	**7,129**	904
	128,196	56,734

MARKET OVERVIEW

In the first half of 2018, the United States (the "**US**") and some of the European Union (the "**EU**") countries have witnessed signs of economic recovery but the growth rates have not been robust. The gross domestic product ("**GDP**") growth rate in the People's Republic of China (the "**PRC**") maintained at a rate of 6.8% for the first half of 2018 as compared to 6.9% for the full year of 2017. Instead of pursuing economic growth in quantitative terms, the PRC government is now keen on pursuing sustainable development and putting emphasis on prevention of significant risk, pollution control and poverty reduction.

In the first half of 2018, oil prices have been trending upward and trading at between US$60 and to US$75 per barrel for most of the time. Relative stability in prices of oil related raw materials translated into more stable market conditions for polyester yarns related products.

The PRC government has continued with the policy of direct subsidy to cotton farmers in Xinjiang and has orderly auctioned the national cotton reserve. The domestic cotton prices in the PRC have stabilized in the first half of 2018 and have been trading at around RMB15,500 per tonne for most of the time without showing very large fluctuations. The international cotton prices have been between around US77 cents and US93 cents per pound in the first half of 2018. The stabilization of both domestic cotton prices and international cotton prices has largely narrowed their price gap and has created a better competitive environment for the domestic cotton yarn manufacturers with few or no import quotas.

A relatively more stable environment in terms of the prices of raw materials and the continuing increase in internal consumption in the domestic economy in the PRC has contributed to favourable market conditions for the textile industry as a whole. However, the stepping up of the enforcement of environmental protection regulations by the PRC government has affected corporations involved in dyeing and printing business, forcing many smaller market players into suspension or closure. This may affect their upstream suppliers and downstream customers. Other unfavourable factors including: weak overseas demand, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia. The recent decision by President Trump of the US to impose import tariff on Chinese import goods and the subsequent retaliation by the PRC government also increased the risk of full scale trade war between the two countries. These factors have introduced risk and uncertainties for the industry as whole.

BUSINESS REVIEW

The sales volume of yarn products of the Group increased by 4.1% from approximately 54,516 tonnes for the six months ended 30 June 2017 to approximately 56,775 tonnes for the six months ended 30 June 2018. The production volume of yarn products of the Group slightly decreased by 0.8% from approximately 58,248 tonnes for the six months ended 30 June 2017 to approximately 57,777 tonnes for the six months ended 30 June 2018. The revenue from the yarn products of the Group increased by 15.0% to approximately RMB798.0 million for the six months ended 30 June 2018 as compared to RMB693.7 million for the six months ended 30 June 2017. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2018 were approximately RMB91.5 million and approximately RMB44.8 million, respectively.

In the first half of 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group is offering around 100 types of yarn products with different material mix and counts to satisfy the needs of different customers.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") has continued to rationalize its production in the first half of 2018. 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 increased by 130.7% from approximately 4,185 tonnes for the six months ended 30 June 2017 to approximately 9,653 tonnes for the six months ended 30 June 2018. The production volume of PSF increased by 14.7% from approximately 8,380 tonnes for the six months ended 30 June 2017 to approximately 9,608 tonnes for the six months ended 30 June 2018.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2018 was approximately RMB837.7 million, representing an increase of approximately RMB131.3 million, or 18.6%, 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 2018 *RMB'000*		Six months ended 30 June 2017 *RMB'000*	
Polyester yarns	**269,857**	**32.2%**	209,190	29.6%
Polyester-cotton and viscose-cotton blended yarns	**346,492**	**41.4%**	291,985	41.4%
Cotton yarns	**18,536**	**2.2%**	23,411	3.3%
Viscose and Stretchable core viscose yarns	**67,500**	**8.1%**	58,050	8.2%
Grey and deep grey mélange yarns	**95,651**	**11.4%**	111,017	15.7%
Polyester staple fibre	**36,285**	**4.3%**	7,469	1.1%
Raw materials	**2,503**	**0.3%**	473	0.1%
Others	**896**	**0.1%**	4,799	0.6%
	837,720	**100.0%**	706,394	100.0%

The increase in the revenue of the Group for the six months ended 30 June 2018 was mainly attributable to the increase in the average selling price of yarn products of the Group of 10.5% from approximately RMB12,724 per ton for the six months ended 30 June 2017 to approximately RMB14,056 per ton for the six months ended 30 June 2018. The sales volume also increased by approximately 4.1% for the six months ended 30 June 2018 as compared with the corresponding period in 2017.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB62.5 million for the six months ended 30 June 2017 to approximately RMB91.5 million for the six months ended 30 June 2018. The gross profit margin of the Group increased from approximately 8.8% for the six months ended 30 June 2017 to approximately 10.9% for the six months ended 30 June 2018. The increase in gross margin was mainly due to increase in sales. The increase in sales was mainly due to the substantial increase of approximately 10.5% in the average selling prices of the yarn products of the Group and moderate increase in sales volume of approximately 4.1%. Due to improvement in the market conditions in the first half of 2018, the rate of increase in the selling prices of the yarn products of the Group, in particular, polyester yarns, was higher than the rate of increase of the prices of raw materials when compared with that of the corresponding period in 2017.

Other Income

Other income of the Group increased from approximately RMB11.4 million for the six months ended 30 June 2017 to approximately RMB13.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB2.3 million or 20.2%. The increase in other income was mainly due to increase in income from scrap sales and government grants.

Other gains and losses

Other losses for the six months ended 30 June 2018 was approximately RMB1.5 million while other gains for the six months ended 30 June 2017 was approximately RMB16.6 million. Other gains for the six months ended 30 June 2017 were mainly due to fair value gain on the derivative component of the Group's convertible bond of approximately RMB14.5 million and net foreign exchange gain of RMB3.6 million. Those gains were partly offset by the unrealized loss on forward contract of RMB1.3 million. For the six months ended 30 June 2018, the fair value gain on the derivative component of the convertible bond did not recur as it was fully redeemed in the second half of 2017. The other losses for the period mainly represented the net exchange loss and loss on disposal of property, plant and equipment of approximately RMB1.1 million and RMB0.6 million respectively.

Distribution and Selling Expenses

Distribution and selling expenses of the Group remained about the same at approximately RMB11.9 million for the six months ended 30 June 2018 as compared to approximately RMB11.7 million for the six months ended 30 June 2017. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.4% for the six months ended 30 June 2018 (six months ended 30 June 2017: 1.7%).

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB24.4 million for the six months ended 30 June 2017 to approximately RMB25.7 million for the six months ended 30 June 2018, representing an increase of approximately RMB1.3 million or 5.3%. The increase in administrative expenses was mainly due to increase in directors' remuneration. Administrative expenses as a percentage of revenue of the Group was approximately 3.1% for the six months ended 30 June 2018 (six months ended 30 June 2017: 3.5%).

Finance Costs

Finance costs of the Group decreased from approximately RMB29.5 million for the six months ended 30 June 2017 to approximately RMB17.0 million for the six months ended 30 June 2018, representing a decrease of 42.4% or approximately RMB12.5 million. The decrease in the Group's finance costs was mainly due to decrease in interest on the Group's convertible bond resulting from its full redemption in the second half of 2017.

Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2018 was approximately 12.2%, as compared to 18.9% for the corresponding period in 2017. The decrease in effective income tax rate was mainly due to the utilization of tax loss carried forward by Huachun, the Group's subsidiary in the PRC, for the six months ended 30 June 2018.

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 2018 was approximately RMB44.8 million, representing an increase of approximately RMB22.5 million, or 100.9%, as compared to that for the six months ended 30 June 2017. The net profit margin of the Group for the six months ended 30 June 2018 was approximately 5.3% representing an increase of 2.1 percentage points as compared with 3.2% for the six months ended 30 June 2017. The increase in the Group's net profit were mainly due to the increase in gross profit and decrease in finance cost, partially offset by the decrease in other gains.

Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2018 was approximately RMB3.58 cents, representing an increase of approximately 101.1% as compared with approximately RMB1.78 cents for the six months ended 30 June 2017. The increase in basic earnings per share of the Company was due to the increase in net profit for the six months ended 30 June 2018. The diluted earnings per share of the Company increased from approximately RMB1.14 cents for the six months ended 30 June 2017 to approximately RMB3.58 cents (equals basic earnings per share) for the six months ended 30 June 2018, representing an increase of approximately 214.0% or RMB2.44 cents. The increase in diluted earnings per share was due to the Company early redeemed the convertible bond in the second half of 2017, and no dilutive effect in the first half of 2018.

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 2018, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB54.0 million (31 December 2017: RMB57.8 million) and pledged bank deposits of approximately RMB71.5 million (31 December 2017: RMB46.3 million) at 30 June 2018. The Group's cash and bank balances were mainly held in Hong Kong Dollars, US Dollars and 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 2018, the Group's interest-bearing borrowings amounted to approximately RMB500.7 million (31 December 2017: RMB530.9 million), RMB461.9 million (92.3%) of which (31 December 2017: RMB465.5 million (87.7%)) was repayable within one year or on demand. The Group's banking facilities were secured by its land use rights, properties, plant and equipment and pledged bank deposits with a carrying value of approximately RMB849.7 million in aggregate (31 December 2017: RMB767.2 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 borrowings, finance lease payables and bills payable to total assets, was approximately 42.3% at 30 June 2018 (31 December 2017: 41.9%). Net current liabilities and net assets at 30 June 2018 was approximately RMB494.1 million (31 December 2017: RMB525.3 million) and approximately RMB584.6 million (31 December 2017: RMB541.5 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, trade and other receivables, bills payable, bank borrowings, finance lease payable 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 at 30 June 2018 were approximately RMB4.2 million (31 December 2017: RMB15.5 million) and RMB25.2 million (31 December 2017: 29.6million), respectively. The Group had not used any financial instrument for hedging purposes during the six months ended 30 June 2018.

Contingent Liabilities

At 30 June 2018, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

At 30 June 2018, the Group had a total of 3,263 employees (31 December 2017: 3,073). 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 2018, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

A relatively more stable environment in terms of the prices of raw materials and the continuing increase in internal consumption in the domestic economy in the PRC has contributed to favourable market conditions for the industry. However, unfavourable factors including impact of environment protection regulations, poor overseas demand, keen domestic and overseas competition and escalation in trade conflict between the US and PRC have introduced risk and uncertainties to the industry.

In the first half of 2018, the Group has continued to rationalise its production capacities and further diversified its product portfolio. The Group is offering around 100 types of yarns with different material mix and counts to satisfy the needs of different customers. The Group has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of polyester staple fibres.

Looking forward, the sluggish overseas demand, fierce domestic and overseas competition and external uncertainties will continue to pose challenges to the textile industry in the PRC. The Group will continue to put more effort into new products development and increase its effort in developing markets for its new products. 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

The Board does not recommend any dividend in respect of the six months ended 30 June 2018.

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 2018.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2018, 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 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 2018.

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 2018.

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 2018 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, 24 August, 2018

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