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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 2017

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2017	2016
		(unaudited)	(unaudited)
	Note	***RMB'000***	*RMB'000*
Revenue	*4*	**706,394**	631,296
Cost of sales		**(643,918)**	(577,741)
Gross profit		**62,476**	53,555
Other income	*5*	**11,428**	5,624
Other gains and losses	*6*	**16,618**	450
Distribution and selling expenses		**(11,680)**	(11,394)
Administrative expenses		**(24,426)**	(21,770)
Finance costs		**(29,531)**	(23,272)
Profit before tax		**24,885**	3,193
Income tax expense	*7*	**(4,704)**	(2,031)
Profit and total comprehensive income for the period	*8*	**20,181**	1,162
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**22,319**	1,486
Non-controlling interests		**(2,138)**	(324)
		20,181	1,162
Earnings per share	*10*		
Basic		**RMB1.78 cents**	RMB0.12 cents
Diluted		**RMB1.14 cents**	RMB0.12 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2017 (unaudited) *RMB'000***	31 December 2016 (audited) *RMB'000*
Non-current assets			
Property, plant and equipment		**1,092,545**	1,106,576
Prepaid lease payments		**43,802**	44,347
Intangible asset		**42**	67
Deposits on acquisition of property, plant and equipment		**492**	53
Goodwill		**34,829**	34,829
Deferred tax assets		**2,416**	2,465
		1,174,126	1,188,337
Current assets			
Inventories		**260,993**	137,153
Trade and other receivables	*11*	**28,387**	53,597
Bills receivable		**18,840**	12,614
Prepaid lease payments		**1,090**	1,090
Pledged bank deposits		**52,438**	61,571
Restricted bank deposit		**500**	500
Cash and bank balances		**44,796**	93,443
		407,044	359,968
Current liabilities			
Trade and other payables	*12*	**390,439**	233,792
Bills payable		**34,760**	52,148
Deferred income		**227**	227
Finance lease payable		**3,488**	4,125
Financial liabilities at fair value through profit or loss		**1,326**	–
Bank borrowings		**424,827**	498,729
Notes payable		**–**	705
Liability component of convertible bond		**1,087**	1,128
Derivative component of convertible bond		**36,361**	50,853
Current tax liabilities		**7,717**	10,276
		900,232	851,983
Net current liabilities		**(493,188)**	(492,015)
Total assets less current liabilities		**680,938**	696,322

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

	30 June 2017 (unaudited) *RMB'000*	31 December 2016 (audited) *RMB'000*
Non-current liabilities		
Consideration payables	**–**	42,963
Deferred income	**7,823**	7,937
Bank borrowings	**65,840**	20,260
Notes payable	**–**	44,729
Liability component of convertible bond	**74,266**	68,289
Deferred tax liabilities	**19,284**	18,600
	167,213	202,778
NET ASSETS	**513,725**	493,544
Capital and reserves		
Share capital	**101,989**	101,989
Reserves	**381,887**	359,568
Equity attributable to owners of the Company	**483,876**	461,557
Non-controlling interests	**29,849**	31,987
TOTAL EQUITY	**513,725**	493,544

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2017

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 ("**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 2017, the Group had net current liabilities of approximately RMB493,188,000. 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 RMB406,100,000 currently included in current liabilities at 30 June 2017.

   (ii) Undrawn banking facilities amounting to approximately RMB37,402,000.

   (iii) Subsequent to the reporting date, the Group has also successfully obtained new banking facilities of approximately RMB58,117,000.

   (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 2016 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 2016 except as stated below.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

(a) Application 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 2017. IFRSs comprise International Financing Reporting Standards ("**IFRS**"); International Accounting Standards; and Interpretations ("**IAS**"). The adoption of these new and revised IFRSs did not have any significant effect on the condensed consolidated financial information.

(b) 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 2017 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is 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 new standards issued but not yet effective which may have a significant impact on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9, effective on or after 1 January 2018, replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held.

The Group does not expect the new standard to have a significant impact on the classification of its financial assets as the Group does not have any debt instruments currently classified as held-to-maturity or classified as available-for-sale financial assets, or equity investments.

There will be no impact on the Group's accounting for financial liabilities, as the requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group is still in the process of making an assessment of what the impact of this standard is expected to be in the period of initial application. It may result in an earlier recognition of impairment for trade receivables and other financial assets measured at amortised costs.

IFRS 15 Revenue from Contracts with Customers

IFRS 15, effective on or after 1 January 2018, replaces all existing revenue standards and interpretations. The new standard introduces a five-step model to recognise revenue.

Based on the preliminary result of assessment, the Group's revenue recognition policy largely follows IFRS 15. Therefore, the Group does not expect a material impact on the adoption of new IFRS 15.

IFRS 16 Leases

IFRS 16, effective on or after 1 January 2019, replaces IAS 17 Leases and related Interpretations. IFRS 16 removes the distinction between operating leases and finance leases. 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 mainly 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 RMB869,000 at 30 June 2017. 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.

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 2017, 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 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**

	Yarns (unaudited) *RMB'000*	Staple Fibres (unaudited) *RMB'000*	Total (unaudited) *RMB'000*
Six months ended 30 June 2016			
Revenue from external customers	631,296	–	631,296
Interest income	484	4	488
Interest expense	(23,207)	–	(23,207)
Depreciation and amortisation	(27,219)	(96)	(27,315)
Profit/(Loss) of reportable segments	4,562	(663)	3,899

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Revenue		
Total revenue of reportable segments	**724,088**	631,296
Elimination of intersegment revenue	**(17,694)**	–
Group's revenue	**706,394**	631,296
Profit or loss		
Total profit of reportable segments	**22,815**	3,899
Elimination of intersegment losses	**119**	–
Adjusted for income in relation to government grants	**2,997**	191
Unallocated expense, net		
Other income, gains and losses	**(130)**	(6)
Administrative and other expenses	**(916)**	(891)
Taxation	**(4,704)**	(2,031)
Group's profit for the period	**20,181**	1,162

4. **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.

5. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Interest income on bank deposits	**361**	499
Government grants	**2,997**	191
Income from scrap sales	**7,587**	4,464
Rental income	**318**	386
Others	**165**	84
	11,428	5,624

6. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Fair value gain on derivative component of convertible bond	**14,492**	–
Net foreign exchange gain	**3,613**	456
Loss on disposal of property, plant and equipment	**(26)**	(6)
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)**	–
	16,618	450

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the period	**3,971**	621
Deferred tax	**733**	1,410
	4,704	2,031

No provision for Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016 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 from 2014, and the status was valid for a period of three years. Jiangxi Jinyuan was thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016. The application for the renewal of the status of state-encouraged high-new technology enterprise is in progress. The directors strongly believe that Jiangxi Jinyuan should be able to maintain the status.

Huachun and Xinyuan, the Company's subsidiaries, are subject to the EIT tax 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.

8. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Depreciation	**28,717**	26,782
Operating lease charges		
– Amortisation of prepaid lease payments	**545**	545
– Land and buildings	**258**	233
Amortisation of intangible asset	**25**	25
Cost of inventories sold	**643,918**	577,741

9. 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 2017 and 2016.

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	(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)	**22,319**	1,486
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	**16,927**	1,486

Number of shares	Six months ended 30 June **2017** **(unaudited)** ***'000***	 2016 (unaudited) *'000*
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 loans outstanding	**227,000**	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,479,350**	1,252,350

Diluted earnings per share is reported for the prior period, even if it equals basic earnings per share.

11. TRADE AND OTHER RECEIVABLES

	30 June **2017** **(unaudited)** ***RMB'000***	31 December 2016 (audited) *RMB'000*
Trade receivables	**12,463**	17,360
Advance payment to suppliers	**1,342**	18,400
Prepayments and other receivables	**2,182**	14,428
Value-added tax recoverable	**12,400**	3,409
	28,387	53,597

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 **2017** **(unaudited)** ***RMB'000***	31 December 2016 (audited) *RMB'000*
0-30 days	**8,449**	15,045
31-90 days	**3,540**	2,139
Over 90 days	**474**	176
	12,463	17,360

12. TRADE AND OTHER PAYABLES

	30 June 2017 (unaudited) *RMB'000*	31 December 2016 (audited) *RMB'000*
Trade payables	**92,571**	62,934
Other payables	**15,890**	7,932
Other tax payables	**15,540**	16,879
Accrued for salaries and wages	**12,681**	16,532
Other accrued charges	**77,889**	74,715
Payables for acquisition of property, plant and equipment	**6,353**	24,742
Deposits from customers	**38,453**	21,222
Dividend payables	**243**	243
Consideration payables	**53,819**	8,593
Amount due to a related company *(Note)*	**77,000**	–
	390,439	233,792

Note: During the six months ended 30 June 2017, certain unsecured loans were borrowed 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**")) ranging from RMB2,000,000 to RMB20,000,000. These loans were interest-free and repayable on demand. Jiangxi Baoyuan is considered as a related company of the Group since its 80% equity interest held by a close family member of the executive directors.

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 title has passed to the Group:

	30 June 2017 (unaudited) *RMB'000*	31 December 2016 (audited) *RMB'000*
0-30 days	**65,136**	47,683
31-90 days	**23,069**	10,452
Over 90 days	**4,366**	4,799
	92,571	62,934

MARKET OVERVIEW

In the first half of 2017, the international economic conditions remained challenging. The gross domestic product ("**GDP**") growth rate of the United States (the "**US**") was less than 2% for the first half of 2017. The economic outlook for the rest of the developed countries remains uncertain. Despite some European countries witnessed some signs of economic recovery, the GDP growth rate of the 28 countries in the European Union was less than 1% in the first half of 2017. Despite sluggish overseas demand, domestic over capacity and the adjustments resulting from the transition of the economy, the growth of the economy of the People's Republic of China (the "**PRC**") remains stable. The GDP growth rate of the PRC slightly increased from a rate of 6.7% for the full year of 2016 to 6.9% in the first half of 2017.

After the slump in the international oil prices to below US$30 per barrel in February 2016, oil prices have rebounded since the second quarter of 2016 and have been trading at above US$50 per barrel for most of the time in the first half of 2017. Stabilisation in prices of oil related raw materials translated into more stable market conditions for polyester yarns products.

Domestic cotton prices in the PRC have shown an upward trend since the second half of 2016. In the first half of 2017, domestic cotton prices have stabilised and have been trading at over RMB15,500 per tonne for most of the time in the first half of 2017 without showing very large fluctuations. However, the price gap between imported cotton and domestic cotton has been hovering at around RMB2,000 per tonne and this continues to create a competitive disadvantage for the domestic cotton yarn manufacturers with few or no import quotas.

Despite a relatively more stable environment in terms of the prices of the raw materials, the overall market conditions for the textile industry remains difficult due to a number of unfavourable factors including: poor overseas demand, weakened domestic demand resulting from a slow down domestic economy in the PRC, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia.

BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with it subsidiaries, (the "**Group**") decreased by 4.2% from approximately 56,934 tonnes for the six months ended 30 June 2016 to approximately 54,516 tonnes for the six months ended 30 June 2017. The production volume of yarn products of the Group increased by 5.0% from approximately 55,477 tonnes for the six months ended 30 June 2016 to approximately 58,248 tonnes for the six months ended 30 June 2017. The revenue of the yarn products of the Group increased by 10.3% to approximately RMB693.7 million for the six months ended 30 June 2017 as compared to RMB629.1 million for the six months ended 30 June 2016. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2017 were approximately RMB62.5 million and approximately RMB22.3 million, respectively.

In the first half of 2017, the Group has continued to rationalise 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 commenced trial production in November 2016. 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 and production volume of PSF for the six months ended 30 June 2017 was approximately 4,185 tonnes and 8,380 tonnes respectively.

In August 2016, the Company issued redeemable fixed coupon notes with a principal amount of HK$50,000,000 (the "**Notes**") and a redeemable fixed coupon convertible bond in the principal amount of HK$110,000,000 (the "**Bond**") to CCB International Overseas Limited. The Company has early redeemed the Notes in full in March 2017. The Bond remained outstanding as at 30 June 2017.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2017 was approximately RMB706.4 million, representing an increase of approximately RMB75.1 million, or 11.9%, 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 2017 ***RMB'000***		Six months ended 30 June 2016 *RMB'000*	
Polyester yarns	**209,190**	**29.6%**	194,938	30.9%
Polyester-cotton and viscose-cotton blended yarns	**291,985**	**41.4%**	250,389	39.7%
Cotton yarns	**23,411**	**3.3%**	49,995	7.9%
Viscose and stretchable core viscose yarns	**58,050**	**8.2%**	34,516	5.4%
Grey and deep grey mélange yarns	**111,017**	**15.7%**	99,238	15.7%
Polyester staple fibres	**7,469**	**1.1%**	–	–
Others	**5,272**	**0.7%**	2,220	0.4%
	706,394	**100.0%**	631,296	100.0%

The increase in the revenue of the Group for the six months ended 30 June 2017 was mainly attributable to the increase in the average selling price of yarn products of the Group of 15.2% from approximately RMB11,049 per ton for the six months ended 30 June 2016 to approximately RMB12,724 per ton for the six months ended 30 June 2017, despite sales volume decreased by approximately 4.2% for the six months ended 30 June 2017 as compared with the corresponding period in 2016.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB53.6 million for the six months ended 30 June 2016 to approximately RMB62.5 million for the six months ended 30 June 2017. The gross profit margin of the Group slightly increased from approximately 8.5% for the six months ended 30 June 2016 to approximately 8.8% for the six months ended 30 June 2017. The increase in gross margin was mainly due to increase in sales. The increase in sales was mainly due to the substantial increase in the average selling prices of the yarn products of the Group. The increase in the selling prices of the yarn products of the Group were mainly due to the higher prices of raw material in the first half of 2017 as compared with that of the corresponding period in 2016. The selling prices of yarn products generally have a positive correlation with that of raw materials.

Other Income

Other income of the Group increased from approximately RMB5.6 million for the six months ended 30 June 2016 to approximately RMB11.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB5.8 million or 103.6%. The increase in other income was mainly due to increase in income from scrap sales and government grants.

Other Gains and Losses

Other gains for the six months ended 30 June 2017 was approximately RMB16.6 million while other gains for the six months ended 30 June 2016 was approximately RMB0.5 million. Other gains for the six months ended 30 June 2017 were mainly due to fair value gain on the derivative component of the Convertible Bond of approximately RMB14.5 million and net foreign exchange gain of RMB3.6 million. Those gains were partly offset by the unrealised loss on currency forward contracts of RMB1.3 million.

Distribution and Selling Expenses

Distribution and selling expenses of the Group remained about approximately the same at approximately RMB11.7 million for the six months ended 30 June 2017 as compared to approximately RMB11.4 million for the six months ended 30 June 2016. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.7% for the six months ended 30 June 2017 (six months ended 30 June 2016: 1.8%).

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB21.8 million for the six months ended 30 June 2016 to approximately RMB24.4 million for the six months ended 30 June 2017, representing an increase of approximately RMB2.6 million or 11.9%. The increase in administrative expenses was mainly due to administrative expenses attributable to Xinyuan which commenced production in November 2016. Administrative expenses as a percentage of revenue of the Group was approximately 3.5% for the six months ended 30 June 2017 (six months ended 30 June 2016: 3.4%).

Finance Costs

Finance costs of the Group increased from approximately RMB23.3 million for the six months ended 30 June 2016 to approximately RMB29.5 million for the six months ended 30 June 2017, representing an increase of 26.6% or approximately RMB6.2 million. The increase in the Group's finance costs was mainly due to increase in interest on convertible bond and notes payable, partially offset by decrease in interest on bond payables.

Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2017 was approximately 18.9%, as compared to 63.6% for the corresponding period in 2016. The decrease in effective income tax rate was mainly due to the reversal of recognised deferred tax assets in respect of the tax loss carrying forward for the for the six months ended 30 June 2016 and the absence of such reversal for the six months ended 30 June 2017.

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 2017 was approximately RMB22.3 million, representing an increase of approximately RMB20.8 million, or 14 times, as compared to that for the six months ended 30 June 2016. The net profit margin attributable to owners of the Company for the six months ended 30 June 2017 was approximately 3.2% representing an increase of 3 percentage points as compared with 0.2% for the six months ended 30 June 2016. The increases in the Group's net profit were mainly due to the increase in gross profit, other income and other gains, partially offset by increase in administrative expenses and finance costs.

Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2017 was approximately RMB1.78 cents, representing an increase of approximately 14 times as compared with approximately RMB0.12 cents for the six months ended 30 June 2016. 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 2017.

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 2017, net cash used in operating activities of the Group amounted to approximately RMB52.2 million (six months ended 30 June 2016: net cash inflow, RMB45.6 million). The Group had cash and bank balances of approximately RMB44.8 million (31 December 2016: RMB93.4 million), pledged bank deposits of approximately RMB52.4 million (31 December 2016: RMB61.6 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2016: RMB0.5 million) at 30 June 2017. The Group's cash and bank balances were mainly held in Hong Kong 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 2017, the Group's interest-bearing borrowings amounted to approximately RMB569.5 million (31 December 2016: RMB638.0 million), RMB429.4 million (75.4%) of which (31 December 2016: RMB504.7 million (79.1%)) was repayable within one year or on demand. The Group's banking facilities were secured by its land use rights, properties, plant and equipment, pledged bank deposits and bills receivable with a carrying value of approximately RMB766.2 million in aggregate as at 30 June 2017 (31 December 2016: RMB763.4 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities. The Group's convertible bond were secured by 514,305,000 ordinary shares of the Company held by Popular Trend Holdings Limited ("**Popular Trend**"), a company wholly owned by an executive director of the Company and the cash maintained by Popular Trend under a collateral account, and is guaranteed by an executive director of the Company.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, notes payable, liability component of convertible bond, finance lease payables, bills payable and consideration payables to total assets, was approximately 41.6% at 30 June 2017 (31 December 2016: 47.9%). Net current liabilities and net assets at 30 June 2017 was approximately RMB493.2 million (31 December 2016: RMB492.0 million) and approximately RMB513.7 million (31 December 2016: RMB493.5 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, restricted bank deposit, trade and other receivables, bills payable, convertible bond, bank borrowings, finance lease payable and other payables, which mainly expose the Group to risk in Hong Kong Dollars and US Dollars. The Group tries to mitigate its exposure to the decrease in value of RMB by early redemption in full in March 2017 the Notes of principal amount of HK$50,000,000 issued by the Company and also entered into currency forward contracts during the six months ended 30 June 2017. An unrealised loss of approximately RMB1.3 million was incurred on currency forward contracts during the six months ended 30 June 2017.

Contingent Liabilities

At 30 June 2017, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

At 30 June 2017, the Group had a total of 3,291 employees (31 December 2016: 3,298). Remuneration for employees, including the directors of the Company (the "**Directors**"), is determined in accordance with performance, professional experiences and the prevailing market practices. The Group's management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company had adopted a share option scheme on 3 December 2011, under which the Company may grant options to eligible persons including Directors and employees. No share option has been granted pursuant to the scheme since its adoption.

Significant Investments and Material Acquisitions and Disposal of Subsidiaries

During the six months ended 30 June 2017, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

Despite a relatively more stable environment in terms of the prices of the raw materials, the overall market conditions for the textile industry remains difficult due to a number of unfavourable factors including: poor overseas demand, weakened domestic demand resulting from a slow down domestic economy in the PRC, keen domestic competition in the PRC due to excess capacities and competition from manufacturing establishments in the South East Asia.

In the first half of 2017, the Group has continued to rationalise 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 has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of PSF. Xinyuan has commenced trial production in November 2016.

Looking forward, unfavourable market conditions 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 2017.

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 2017.

EARLY REDEMPTION OF REDEEMABLE FIXED COUPON NOTES

On 9 August 2016, the Company issued redeemable fixed coupon notes in the principal amount of HK$50,000,000 (the "**Notes**") and a redeemable fixed coupon convertible bond in the principal amount of HK$110,000,000 which carries conversion rights to convert into up to 227,000,000 conversion shares at the conversion price (being the initial price of HK$0.45 per conversion share, subject to adjustment) (the "**Bond**") to CCB International Overseas Limited. Popular Trend, a controlling shareholder of the Company ("**the Mortgagor**") has entered into a share mortgage with CCB International Overseas Limited in respect of a mortgage over 514,305,000 ordinary shares of HK$0.10 in the capital of the Company ("**Shares**") held by the Mortgagor as continuing security for the Notes and the Bond. As at the date of this report, the Shares represent approximately 41.07% of the entire issued share capital of the Company. Details of the Notes and the Bond were set out in the Company's announcements dated 11 July 2016 and 9 August 2016.

On 31 March, 2017, the Company redeemed in full of all of the outstanding principal of the Notes of HK$50,000,000. Details of the redemption were set out in the Company's announcement dated 31 March 2017.

During the year ended 31 December 2016 and the six months ended 30 June 2017, there was no conversion of any amount of the Bond into Shares.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2017, the Company had complied with the code provisions of the existing Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. In respect of code provision C.2.5 of the CG Code, the Company has not set up an Internal Audit ("**IA**") function. The Company has 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 an annual 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 2017.

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 information for the six months ended 30 June 2017.

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 2017 containing all the information required by the Listing Rules will be dispatched to the Shareholders 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, 25 August, 2017

As at the date of this announcement, the Board comprises Mr. Zheng Hong, 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 as the independent non-executive Directors.