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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 2014

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 2014 together with the comparative figures for the corresponding period in 2013 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2014*

| | | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2014** | 2013 |
| | | **(unaudited)** | (unaudited) |
| | *NOTES* | ***RMB'000*** | *RMB'000* |
| Revenue | *4* | **386,263** | 442,307 |
| Cost of sales | | **(366,227)** | (419,216) |
| Gross profit | | **20,036** | 23,091 |
| Other income | *5* | **9,071** | 12,911 |
| Distribution and selling expenses | | **(5,603)** | (6,726) |
| Administrative expenses | | **(13,547)** | (10,928) |
| Other gains | | **–** | 98 |
| Finance costs | | **(7,830)** | (5,317) |
| Profit before tax | | **2,127** | 13,129 |
| Income tax expense | *6* | **(1,534)** | (6,253) |
| Profit and total comprehensive income for the period attributable to owners of the Company | *7* | **593** | 6,876 |
| Earnings per share | *9* | | |
| – Basic and diluted (RMB cent) | | **0.06** | 0.68 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*as at 30 June 2014*

| | NOTES | As at 30 June 2014 (unaudited) RMB'000 | As at 31 December 2013 (audited) RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **585,953** | 575,208 |
| Prepaid lease payments | | **34,510** | 34,909 |
| Deposits on acquisition of property, plant and equipment | | **862** | 3,262 |
| | | **621,325** | 613,379 |
| **Current assets** | | | |
| Inventories | | **101,818** | 102,075 |
| Trade and other receivables | 10 | **16,180** | 16,631 |
| Bills receivables | | **15,009** | 6,599 |
| Prepaid lease payments | | **776** | 776 |
| Pledged bank deposits | | **19,268** | 19,167 |
| Cash and bank balances | | **61,678** | 58,203 |
| | | **214,729** | 203,451 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **109,188** | 125,183 |
| Bills payables | | **26,282** | 51,420 |
| Tax payable | | **5,407** | 8,380 |
| Bank borrowings | | **263,573** | 207,986 |
| | | **404,450** | 392,969 |
| **Net current liabilities** | | **(189,721)** | (189,518) |
| **Total assets less current liabilities** | | **431,604** | 423,861 |
| **Non-current liabilities** | | | |
| Deferred income | | **6,190** | 6,265 |
| Bank borrowings | | **15,000** | – |
| Deferred tax liability | | **5,081** | 4,835 |
| | | **26,271** | 11,100 |
| **Net assets** | | **405,333** | 412,761 |
| **Capital and reserves** | | | |
| Share capital | | **82,899** | 82,899 |
| Reserves | | **322,434** | 329,862 |
| **Total equity attributable to the owners of the Company** | | **405,333** | 412,761 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## 1. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

As of 30 June 2014, the Group had net current liabilities of approximately RMB189,721,000 (31 December 2013: RMB189,518,000). Up to the date these condensed consolidated financial statements were authorised for issuance, the relevant banks agreed to renew bank borrowings amounting to RMB125,700,000 currently included in current liabilities as at 30 June 2014. Taken into account the availability of these banking facilities and the Group's expected cash flows generated from operations, the management of the Group is satisfied 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 statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, a new Interpretation and certain amendments to International Financial Reporting Standards ("**IFRSs**") issued by IASB that are mandatorily effective for the current interim period.

The application of these new Interpretations and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

## 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 PRC ("**PRC GAAP**"), that are regularly reviewed by the chief operating decision-maker ("**CODM**") to allocate resources to the segments and to assess their performance.

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.

Other than revenue analysis by major products as disclosed in note 4, no operating results and other discrete financial information relating to the respective products is prepared regularly for internal reporting to the CODM for resources allocation and performance assessment. The executive directors review the profit after tax from the management accounts of wholly owned operating subsidiaries, Jiangxi Jinyuan Textile Co., Ltd. ("**Jiangxi Jinyuan**") and Treasure Resources Corporation Limited for the purposes of resources allocation and performance assessment for the six months ended 30 June 2014 and 2013, respectively. The operations of Jiangxi Jinyuan and Treasure Resources Corporation Limited (six months ended 30 June 2013: Jiangxi Jinyuan) represent single operating and reportable segment of the Company under IFRS 8 "Operating Segments".

## 4. REVENUE

The following is an analysis of the Group's revenue from its major products during the periods:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Sales of polyester yarns | **178,402** | 216,714 |
| Sales of polyester-cotton blended yarns | **177,887** | 201,130 |
| Sales of cotton yarns | **29,974** | 24,463 |
| | **386,263** | 442,307 |

## 5. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Interest income on time deposits, pledged bank deposits and bank balances | **356** | 413 |
| Government grants | **6,407** | 9,075 |
| Income from scrap sales | **1,971** | 3,107 |
| Others | **337** | 316 |
| | **9,071** | 12,911 |

## 6. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Current tax: | | |
| PRC Enterprise Income Tax ("**EIT**") | **1,156** | 5,731 |
| Underprovision in prior year: | | |
| PRC EIT | **132** | – |
| Deferred tax | **246** | 522 |
| | **1,534** | 6,253 |

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 subsidiary of the Company in the PRC.

Jiangxi Jinyuan, a subsidiary of the Company, has been recognized as a state-encouraged high-new technology enterprise starting from 2014, and the status is valid for a period of three years. Jiangxi Jinyuan is thus entitled to a preferential tax rate of 15% in 2014, 2015 and 2016, subject to annual review by the relevant tax authority. As such the EIT rate for Jiangxi Jinyuan was 25% for the year ended 31 December 2013 and was reduced to 15% for the six months ended 30 June 2014.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

In addition, according to the New EIT Law and Implementation Regulation, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned in 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. Deferred tax has been provided in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014 and 2013 in respect of the temporary differences attributable to the undistributed earnings of the PRC subsidiary based on 5%.

Other than the above, the Group has no other significant unprovided deferred tax at the end of the reporting period.

## 7. PROFIT FOR THE PERIOD

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Profit for the period has been arrived at after charging: | | |
| Cost of inventories recognised as an expense | **366,227** | 419,216 |
| Depreciation of property, plant and equipment | **13,381** | 10,167 |
| Amortisation of prepaid lease payments | **399** | 399 |
| Total depreciation and amortisation | **13,780** | 10,566 |

## 8. DIVIDENDS

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Final dividend declared for 2013 – HK 1 cent per share (2012: HK 1 cent per share) | **8,021** | 8,154 |

No dividends were proposed during the reporting period and the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2014.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | **(unaudited)** | (unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company) | **593** | 6,876 |
| **Number of shares** | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,012,500** | 1,012,500 |

No diluted earnings per share are presented as there are no potential ordinary shares outstanding for the six months ended 30 June 2014 and 2013.

## 10. TRADE AND OTHER RECEIVABLES

In general, the Group will receive advance from the customers before the products are delivered. The Group allows some of the long-term and loyal customers to have credit terms of 15–90 days depending on creditability of the customers.

The following is an analysis of trade receivables by age, presented based on the invoice date at the end of each reporting period:

| | **As at 30 June 2014 (unaudited)** | As at 31 December 2013 (audited) |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| 1–30 days | **3,090** | 3,493 |
| 31–90 days | **5** | 337 |
| Over 90 days | **10** | 10 |
| | **3,105** | 3,840 |
| Advance payment to suppliers | **3,074** | 9,687 |
| Prepayments and other receivables | **10,001** | 3,104 |
| | **13,075** | 12,791 |
| | **16,180** | 16,631 |

## 11. TRADE AND OTHER PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date at the end of each reporting period:

| | **As at 30 June 2014 (unaudited)** ***RMB'000*** | As at 31 December 2013 (audited) *RMB'000* |
|---|---|---|
| Trade payables | | |
| 1–30 days | **20,191** | 32,910 |
| 31–90 days | **12,269** | 13,485 |
| Over 90 days | **6,687** | 13 |
| | **39,147** | 46,408 |
| Accrual for salary and wages | **5,400** | 5,400 |
| Deposits from customers | **15,687** | 6,714 |
| Payable for acquisition of property, plant and equipment | **18,876** | 38,086 |
| Value-added tax and other tax payable | **3,408** | 2,464 |
| Other payables and accrued charges | **26,670** | 26,111 |
| | **70,041** | 78,775 |
| | **109,188** | 125,183 |

## MARKET OVERVIEW

In the first half of 2014, the international economic conditions remained challenging. The growth of the gross domestic product ("**GDP**") in the US was minimal while the GDP growth in the European Union slowed to nearly zero. Impact of the political crisis in Ukraine in Eastern Europe on the economic recovery of the Eurozone began to spread across the region. The conflict and unrest in the Middle East have contributed to a relatively high oil prices which is unfavorable for the global economy. The challenging international economic environment hindered the demand within and the exports from the People's Republic of China (the "**PRC**").

As regards the domestic economy, growth of the PRC's economy continued to show signs of slowing down, with its GDP growth rate decreasing from 7.7% for the year of 2013 to 7.4% for the first half of 2014. Moreover, the Consumer Price Index witnessed a mere 2.3% increase in the first half of 2014.

The PRC government has been dedicated to eliminating excessive industrial production capacities and facilitating a gradual and smooth economic transformation. It has adopted a prudent monetary policy since mid-2010 in order to curb excessive lending by banks in the PRC. The People's Bank of China has engaged in open market operation with cautions and has not loosened money supply by reducing the bank loan base rate or adjusting the mandatory reserve ratio since mid-2012. The benchmark loan interest rate for six month to one year term remained at 6.00% per annum since July 2012 and the required reserve ratio for larger financial institutions remained at 20.0% since May 2012. These policies has tightened the liquidity in the capital market and made it difficult for businesses in the PRC to obtain funds.

The complicated international economic conditions and the liquidity crunch in the PRC have affected various industries, including the textile industry. The continued rise in domestic production costs in the PRC has also presented challenges to the industry and has become a norm. The domestic cotton prices in PRC have dropped significantly since April 2014 as a result of the cancellation of the government's national cotton temporary reserve policy. The PRC government has yet to promulgate the full implementation details of the direct subsidy policy. The shift in government policies has narrowed the price gap between domestic and international cotton. This has lessened the pressure of price competition from imported yarns facing the domestic yarn manufacturers. However, lowered cotton prices have dragged down the prices of yarn products and the shift in policy has also introduced uncertainties to the prices of domestic cotton and increased their volatility. The textile market players have generally adopted a cautious approach to procurement which has negatively impacted the market demand and the Group's sales volume and selling prices of yarn products.

## BUSINESS REVIEW

Due to the challenging market conditions in the first half of 2014, the sales volume of the Group decreased from approximately 29,573 tonnes for the six months ended 30 June 2013 to approximately 27,140 tonnes for the six months ended 30 June 2014. The production volume of the Group decreased from approximately 29,786 tonnes for the six months ended 30 June 2013 to approximately 28,191 tonnes for the six months ended 30 June 2014. The revenue of the Group decreased by 12.7% to approximately RMB386.3 million for the six months ended 30 June 2014 as compared to RMB442.3 million for the six months ended 30 June 2013, as a result of decreased sales volume and selling prices. The decrease in the Group's sales volume was mainly due to the general weakness in the market as a result of the continuing softening of domestic cotton prices and yarn products. The decrease in the Group's production volume was mainly due to the a longer Chinese new year break in 2014 as compared to that of 2013 and disruption to the production in April 2014 resulting from the repair work of the Fengtian Development Zone high voltage transmission system in Fengxin County. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2014 was approximately RMB20.0 million and approximately RMB0.6 million, respectively

## FINANCIAL REVIEW

### Turnover

Turnover of the Group for the six months ended 30 June 2014 was approximately RMB386.3 million, representing a decrease of approximately RMB56.0 million, or 12.7%, as compared to the same period last year. Sales of polyester yarn, polyester-cotton blended yarn and cotton yarn accounted for approximately 46.2% (six months ended 30 June 2013: 49.0%), 46.1% (six months ended 30 June 2013: 45.5%) and 7.7% (six months ended 30 June 2013: 5.5%) of total sales of the Group for the six months ended 30 June 2014, respectively. The decrease in the turnover of the Group for the six months ended 30 June 2014 was attributable to decrease in sales volume from approximately 29,573 tonnes for the six months ended 30 June 2013 to approximately 27,140 tonnes for the six months ended 30 June 2014 and the decrease in average unit selling prices of the Group's yarn products. The overall average selling price of yarn products of the Group decreased by approximately 5.1% from approximately RMB14,956 per tonne for the six months ended 30 June 2013 to approximately RMB14,188 per tonne for the six months ended 30 June 2014.

The selling prices of yarn products have a positive correlation with that of raw materials namely, polyester staple fibre and raw cotton. The Group sets the prices of its yarn products based on a variety of factors, including raw material prices, production costs and market conditions, our inventory level and the quality of the yarn products required by our customers. As polyester staple fibres are crude oil – based commodities, the prices of polyester yarns and polyester-cotton blended yarns are indirectly affected by the fluctuations in crude oil prices. The Group adjusts the selling prices of its yarn products from time to time considering the fluctuation in its raw material costs. In addition, the Group also monitors the movement of international and domestic raw cotton prices and members from the management, sales department and procurement department meet on a frequent basis to review the selling prices of its yarn products in order to respond to the changes of the various factors affecting its selling price. The average unit purchase prices of polyester staple fibre and raw cotton were lower in the first half of 2014 than in 2013 and the Group lowered the prices of its various yarn products accordingly during this period.

### Gross profit and gross profit margin

Gross profit of the Group for the six months ended 30 June 2014 decreased from approximately RMB23.1 million for the six months ended 30 June 2013 to approximately RMB20.0 million for six months ended 30 June 2014. The gross profit margin of the Group remained stable at approximately 5.2%. The decrease in gross profit was mainly due to the decrease in sales volume.

### Other Income

Other income of the Group decreased from approximately RMB12.9 million for the six months ended 30 June 2013 to approximately RMB9.1 million for the six months ended 30 June 2014, representing a decrease of approximately RMB3.8 million or 29.5%. The decrease in other income was mainly due to decrease in both government grants and income from scrap sales.

### Distribution and selling expenses

Distribution and selling expenses of the Group decreased from approximately RMB6.7 million for the six months ended 30 June 2013 to approximately RMB5.6 million for six months ended 30 June 2014, representing an decrease of approximately RMB1.1 million, or 16.4%. Distribution and selling expenses as a percentage of turnover of the Group was approximately 1.5% for the six months ended 30 June 2014 (six months ended 30 June 2013: 1.5%). The decrease in the Group's distribution and selling expense was mainly due to decrease in sales volume from approximately 29,573 tonnes for the six months ended 30 June 2013 to approximately 27,140 tonnes for six months ended 30 June 2014.

### Administrative expenses

Administrative expenses of the Group increased from approximately RMB10.9 million for the six months ended 30 June 2013 to approximately RMB13.5 million for the six months ended 30 June 2014, representing an increase of 23.9% or approximately RMB2.6 million. Administrative expenses as a percentage of turnover of the Group was approximately 3.5% for the six months ended 30 June 2014 (six months ended 30 June 2013: 2.5%). The increase in the Group's administrative expenses was mainly due to i) increase in depreciation and related land and property taxes arising from worker's dormitories, support building and other auxiliary structures of the new production site completed by the end of 2013, ii) increase in staff cost in relation to the new production facilities and iii) professional fees incurred in connection with the application for the status of high-new technology enterprise.

### Finance cost

Finance cost of the Group increased from RMB5.3 million for the six months ended 30 June 2013 to approximately RMB7.8 million for the six months ended 30 June 2014, representing an increase of 47.2% or approximately RMB2.5 million. The increase in the Group's finance cost was mainly due to the lack of capitalization of interest expense for construction in progress (amount capitalized for the six months ended 30 June 2013: RMB2.0 million) and increased in bank borrowing.

### Income tax expense

The Group's effective income tax rate for the six months ended 30 June 2014 was approximately 72.1%, as compared to 47.6% for the corresponding period in 2013. The increase in effective income tax rate of the Group was mainly due to non-deductibility for PRC income tax purposes in respect of i) the costs incurred by the Group's entities in Hong Kong and ii) certain accounting adjustments in the Group's entity in the PRC.

**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 2014 was approximately RMB0.6 million, representing a decrease of approximately RMB6.3 million, or 91.3%, as compared to that of the six months ended 30 June 2013. The net profit margin of the Group for the six months ended 30 June 2014 was approximately 0.2%, representing a decrease of 1.4 percentage points as compared to approximately 1.6% for the six months ended 30 June 2013. The decreases in the Group's net profit and net profit margin were mainly due to the decrease in gross proft and other income coupled with increase in administrative and finance costs, partially offset by decrease in distribution and selling expenses and income tax expenses.

**Earnings per share**

The basic earnings per share of the Company for the six months ended 30 June 2014 was approximately RMB0.06 cent, representing a decrease of approximately 91.2% as compared to approximately RMB0.68 cent for the six months ended 30 June 2013. 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 2014.

**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 2014, net cash outflow from operating activities of the Group amounted to approximately RMB18.6 million (six months ended 30 June 2013: inflow RMB19.3 million). The Group had cash and bank balances of approximately RMB61.7 million (31 December 2013: RMB58.2 million) and pledged bank deposits of approximately RMB19.3 million (31 December 2013: RMB19.2 million) as at 30 June 2014. The Group's cash and bank balances were mainly held in Hong Kong dollar and Renminbi.

**Capital Structure and Pledge on Assets**

The Group's interest-bearing borrowings were made in Renminbi and Hong Kong dollars. As at 30 June 2014, the Group's interest-bearing borrowings amounted to approximately RMB278.6 million (31 December 2013: RMB208.0 million), RMB263.6 million (94.6%) of which (31 December 2013: 100%) was repayable within one year. 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 RMB297.3 million in aggregate (31 December 2013: RMB256.8 million).

**Gearing Ratio**

The gearing ratio of the Group, which is equal to the total of bank borrowings and bills payable to total assets, was approximately 36.5% as at 30 June 2014 (31 December 2013: 31.8%). Net current liabilities and net assets at 30 June 2014 was approximately RMB189.7 million (31 December 2013: RMB189.5 million) and approximately RMB405.3 million (31 December 2013: RMB412.8 million), respectively.

### Foreign Exchange Exposure

As the Group conducts business transactions principally in Renminbi, 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 2014. The Group has foreign currency cash and bank balances, other receivables, bank borrowing and other payable, 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 2014 are approximately RMB9.5 million (31 December 2013: RMB3.1 million) and RMB11.5 million (31 December 2013: RMB15.8 million) respectively.

### Contingent Liabilities

As at 30 June 2014, the Group did not have any contingent liabilities.

### Employees, Remuneration and Share Option Scheme

As at 30 June 2014, the Group had a total of 1,761 (31 December 2013: 1,769) employees. 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 has 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 2014, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

## PROSPECT

In the first half of 2014, the textile industry in the PRC continued to encounter adversity arising from a general weakness in demand. Apart from sluggish overseas demand and a softening domestic economy, the cancellation of the PRC government's national cotton temporary reserve policy has exacerbated the problem in the short term, prompting a significant drop in domestic cotton prices since April 2014. The PRC government has yet to promulgate the full implementation details of the direct subsidy policy. The narrowed price gap between domestic and international cotton has lessened the pressure of price competition from imported yarns. However, lowered cotton prices have dragged down the prices of yarn products and the shift in policy has also introduced uncertainties to the prices of domestic cotton and increased their volatility in the short term. The textile market players have generally adopted a cautious approach to procurement which has negatively impacted the market demand and the Group's sales volume and selling prices of yarn product.

Looking forward, the sluggish overseas demand and a softening domestic economy will continue to pose challenges to the textile industry in the PRC. The cancellation of the government's national cotton temporary reserve policy is generally considered to be effective in facilitating market prices of domestic cotton and further narrow the price gap between domestic and international cotton. The new policy is expected to rationalize upstream and downstream relationships along the supply chain, and will benefit the textile industry in the PRC in the long run. Nevertheless, it is likely that the cancellation will discourage demand in the short term prior to the PRC government release the comprehensive subsidy mechanism and other implementation details of the policy. The Group will constantly review its product mix and product pricing to react to market conditions. It will also closely monitor the procurement of raw material in order to minimize the risk of price volatility of raw materials. The increasing manufacturing cost arising from increased labor cost, utility cost and government levies has been a serious concern for domestic manufacturers for the past few years. The Group will curb the escalating costs by continuous improvement in production efficiency by means of improvement in production process, enhancement of automation, continuous training of workers, introduction of advanced and energy efficient machinery. The Group's operating entity in the PRC, Jiangxi Jinyuan, has been recognized as a state-encouraged high-new technology enterprise and thus entitled to a preferential tax rate of 15% for Enterprise Income Tax for a period of 3 years starting from 2014. This is a testimony to the Group's commitment to advanced production process and product quality.

The textile industry, like many other industries in the PRC, is going through a period of elimination and consolidation, companies with better management, production and financial resources will survive the present adversity and flourish in the next upturn cycle. The Group has completed its current expansion plan, as the construction of a new workshop and other auxiliary building and the installation of the planned capacity of approximately 50,000 spindles has been completed and production has commenced. The Group's production capacity has been increased to approximately 380,000 spindles. In addition, the installation of open-end spun production facilities has substantially completed in August 2014 and production testing will commence soon.

Taking into account the benefit from the enlarged product portfolio and increased economy of scale as a result of the expansion of the production capacity, the Group is confident about its future. The Group will also continue to selectively pursue potential strategic acquisition opportunities in order to generate more returns to its shareholders.

## INTERIM DIVIDEND

The Board does not recommend an interim dividend in respect of the six months ended 30 June 2014.

## 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 2014.

## CODE OF CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2014, the Company has complied with the code provisions of the existing Corporate Governance 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**").

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Cod**e") as set out in Appendix 10 to the Listing Rules as the code of conduct governing 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 2014.

## AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee of the Board has reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2014 have also been reviewed by Deloitte Touche Tohmatsu, the auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

## 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 2014 containing all the information required by the Listing Rules will be dispatched to 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 2014

*As at the date of this announcement, the Board comprises Mr. Zheng Hong, Mr. Zheng Yong Xiang as the executive Directors; Mr. Sze Irons, JP, as the non-executive Director; Ms. Chan Mei Bo, Mabel, Mr. Nie Jian Xin and Mr. Ng Wing Ka as the independent non-executive Directors.*