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 2013 AND CHANGE IN USE OF PROCEEDS

The board of directors (the "**Board**") 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 2013 together with the comparative figures for the corresponding period in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
		(unaudited)	(unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**442,307**	418,802
Cost of sales		**(419,216)**	(395,715)
Gross profit		**23,091**	23,087
Other income	*5*	**12,911**	9,752
Distribution and selling expenses		**(6,726)**	(6,069)
Administrative expenses		**(10,928)**	(11,437)
Other gains and losses		**98**	(1,102)
Finance costs		**(5,317)**	(6,883)
Profit before tax		**13,129**	7,348
Income tax expense	*6*	**(6,253)**	(2,228)
Profit and total comprehensive income for the period attributable to owners of the Company	*7*	**6,876**	5,120
Earnings per share	*9*		
– Basic (RMB cents)		**0.68**	0.51
– Diluted (RMB cents)		**N/A**	0.51

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	As at 30 June 2013 (unaudited) RMB'000	As at 31 December 2012 (audited) RMB'000
Non-current assets			
Property, plant and equipment		**529,937**	492,786
Prepaid lease payments		**35,308**	35,707
Deposits on acquisition of property, plant and equipment		**3,433**	5,718
		568,678	534,211
Current assets			
Inventories		**73,875**	60,277
Trade and other receivables	*10*	**16,779**	17,722
Bills receivables		**6,552**	4,118
Prepaid lease payments		**776**	776
Pledged bank deposits		**13,528**	16,250
Time deposits		**3,930**	5,126
Cash and bank balances		**59,917**	86,765
		175,357	191,034
Current liabilities			
Trade and other payables	*11*	**77,533**	44,871
Bills payables		**30,000**	46,250
Dividend payable		**404**	–
Tax payable		**10,789**	5,980
Bank borrowings		**208,000**	208,000
Obligations under finance leases		**823**	2,827
		327,549	307,928
Net current liabilities		**(152,192)**	(116,894)
Total assets less current liabilities		**416,486**	417,317

	Notes	As at 30 June 2013 (unaudited) *RMB'000*	As at 31 December 2012 (audited) *RMB'000*
Non-current liabilities			
Deferred income		**6,840**	6,915
Bank borrowings		**7,000**	7,000
Deferred tax liability		**4,051**	3,529
		17,891	17,444
Net assets		**398,595**	399,873
Capital and reserves			
Share capital		**82,899**	82,899
Share premium and reserves		**315,696**	316,974
Total equity attributable to the owners of the Company		**398,595**	399,873

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 2013, the Group had net current liabilities of approximately RMB152,192,000 (31 December 2012: RMB116,894,000). Up to the date these condensed consolidated financial statements were authorised for issuance, the relevant banks agreed to renew bank borrowings amounting to RMB193,000,000 currently included in current liabilities as at 30 June 2013. In addition, the Group has undrawn banking facilities of RMB140,000,000 as at 30 June 2013 which will not be expired in the coming 12 months. Accordingly, taken into account the availability of these banking facilities and 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 financial obligations as they fall due in the foreseeable future, and 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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, certain new or revised International Financial Reporting Standards ("IFRSs") that are mandatorily effective for the current interim period. The standards that are relevant to the Group are as follows:

Amendments to IAS 1 *"Presentation of Items of Other Comprehensive Income"*

The amendments to IAS 1 introduce new terminology for statement of comprehensive income. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. The amendments have been applied retrospectively. Other than the above mentioned have changes, the application of the amendments to IAS 1 has not resulted in any impact on profit or loss, other comprehensive income and total comprehensive income.

IFRS 10 *"Consolidated Financial Statements"*

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-Int 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

The directors of the Company have assessed the impact of the application of IFRS 10 to the Group and concluded that its application 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.

The application of the new and revised IFRSs in the current interim period has had no material effect on 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 of the wholly owned operating subsidiary, Jinyuan Textile Co., Ltd. Jiangxi ("Jiangxi Jinyuan") prepared under PRC GAAP for the purposes of resources allocation and performance assessment for the six months ended 30 June 2013 and 2012, respectively. The operations of 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	
	2013	2012
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Sales of polyester yarns	**216,714**	206,022
Sales of polyester-cotton blended yarns	**201,130**	190,346
Sales of cotton yarns	**24,463**	22,434
	442,307	418,802

5. OTHER INCOME

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Interest income on time deposits, pledged bank deposits and bank balances	**413**	1,294
Government grants	**9,075**	6,575
Income from scrap sales	**3,107**	1,636
Others	**316**	247
	12,911	9,752

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax ("EIT")	**5,731**	2,228
Deferred tax	**522**	–
	6,253	2,228

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 in the PRC. The applicable tax rate for Jiangxi Jinyuan, a subsidiary, is 25%.

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 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 2013 in respect of the temporary differences attributable to the undistributed earnings of the PRC subsidiary based on 5%.

Deferred taxation has not been provided in the condensed consolidated financial statements for the six months ended 30 June 2012 in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately RMB83,805,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. During the six months ended 31 December 2012, the PRC subsidiary has declared dividend amounting to RMB20,000,000 to the Group's companies and deferred tax has been provided for the remaining accumulated profits amounting to approximately RMB70,584,000 as at 31 December 2012.

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	
	2013	2012
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Profit for the period has been arrived at after charging:		
Cost of inventories recognised as an expense	**419,216**	395,715
Depreciation of property, plant and equipment	**10,167**	9,700
Amortisation of prepaid lease payments	**399**	247
Total depreciation and amortisation	**10,566**	9,947

8. DIVIDENDS

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Final dividend declared for 2012 – HK 1 cent per share (2011: HK 2 cents per share)	**8,154**	16,524

The dividend declared for the year ended 31 December 2011 was paid out of share premium. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum of Association and Articles of Association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

No dividends were proposed during the reporting period and the Directors do not recommend the payment of an interim dividend.

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	
	2013	2012
	(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)	**6,876**	5,120
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,012,500**	1,011,264
Effect of dilutive potential ordinary shares – over-allotment options *(note)*	**N/A**	666
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**N/A**	1,011,930

Note: During the six months ended 30 June 2013, no diluted earnings per share is presented as there are no potential ordinary shares outstanding during the period..

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 2013 (unaudited) *RMB'000*	As at 31 December 2012 (audited) *RMB'000*
Trade receivables		
1–30 days	**4,415**	1,394
31–90 days	**27**	15
	4,442	1,409
Advance payment to suppliers	**10,228**	15,920
Prepayments and other receivables	**2,109**	393
	12,337	16,313
	16,779	17,722

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 2013 (unaudited) *RMB'000*	As at 31 December 2012 (audited) *RMB'000*
Trade payables		
1–30 days	**12,832**	2,287
31–90 days	**11,498**	1,880
Over 90 days	**373**	1,580
	24,703	5,747
Accrual for salary and wages	**5,400**	5,400
Deposits from customers	**6,716**	5,641
Payable for acquisition of property, plant and equipment	**10,251**	2,718
Value-added tax and other tax payable	**3,410**	3,695
Other payables and accrued charges	**27,053**	21,670
	52,830	39,124
	77,533	44,871

MARKET OVERVIEW

In the first half of 2013, the international economic conditions remained challenging. The growth of the gross domestic product ("**GDP**") in the US was less 2.0% per annum while the GDP growth in the European Union fell by approximately 0.1% per annum. The sovereign debt crisis in the Euro zone continued to affect the economies of most European countries. The challenging international economic environment has affected local demand in the PRC as well as the PRC's export.

On the domestic side, economic growth in the PRC continues to show signs of slowing down. The GDP growth in the PRC decreased from 7.8% per annum for the year 2012 to 7.6% per annum in the first half of 2013. In the meantime, the Consumer Price Index increased approximately 2.4% in the first half of 2013.

The PRC government has been trying to eliminate excessive production capacities in the economy and facilitate transition of the economy. It has adopted a prudent monetary policy since mid 2010 in order to avoid excessive lending by banks in the PRC. The People's Bank of China ("**PBOC**") has engaged in open market operation with caution 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 months to one year term remained at 6.00% per annum since July 2012 and the mandatory reserve ratio for larger financial institution remained at 20.0% since May 2012. The abovementioned policies has tightened the liquidity in the capital market and made it difficult for businesses in the PRC to obtain funds.

The complicated international environment and tight liquidity in the PRC have affected many industries, including the textile industry. The rising domestic production costs in the PRC have also presented challenges to the industry and the increases of production costs have become a norm. In order to protect the interests of local cotton farmers, the PRC government continued to intervene the cotton market in 2013 by exercising control over prices of domestic cotton and volume of cotton imported from overseas with lower selling prices. Cotton prices in the PRC hovered at relatively high price levels during the six months ended 30 June 2013 as compared with international prices. As a result, domestic cotton yarn manufacturers had to bear higher raw material cost. On the other hand, during the six months ended 30 June 2013, the selling prices of yarn products were depressed as a result of both weak demand and competition from imported yarn products which were able to advantage of lower international cotton prices.

BUSINESS REVIEW

Despite the challenging market conditions in the first half of 2013, the sales volume of the Group increased from approximately 26,757 tonnes for the six months ended 30 June 2012 to approximately 29,573 tonnes for the six months ended 30 June 2013. The production volume of the Group increased from approximately 29,593 tonnes for the six months ended 30 June 2012 to approximately 29,786 tonnes for the six months ended 30 June 2013. The revenue of the Group increased by 5.6% to approximately RMB442.3 million for the six months ended 30 June 2013 as compared to RMB418.8million for the six months ended 30 June 2012, mainly as a result of increased sales volume. The increase in the Group's sales volume was mainly due to the increased sales effort of the Group. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2013 was approximately RMB23.1 million and approximately RMB6.9 million, respectively

FINANCIAL REVIEW

Turnover

Turnover of the Company for the six months ended 30 June 2013 was approximately RMB442.3 million, representing an increase of approximately RMB23.5 million, or 5.6%, as compared to the same period last year. Sales of polyester yarn, polyester-cotton blended yarn and cotton yarn accounted for approximately 49.0% (2012: 49.2%), 45.5% (2012: 45.5%) and 5.5% (2012: 5.3%) of total sales of the Group for the six months ended 30 June 2013, respectively. The increase in the turnover of the Company for the six months ended 30 June 2013 was mainly attributable to increase in sales volume from approximately 26,757 tonnes for the six months ended 30 June 2012 to approximately 29,573 tonnes for the six months ended 30 June 2013, which was partly offset by the decrease in average unit selling prices of the Company's yarn products. The overall average selling price of yarn products of the Group decreased by approximately 4.4% from approximately RMB15,652 per tonne for the six months ended 30 June 2012 to approximately RMB14,956 per tonne for the six months ended 30 June 2013.

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 Company adjusts the selling prices of its yarn products from time to time considering the fluctuation in its raw material costs. In addition, the Company 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 2013 than in 2012 and the Company lowered the prices of its various yarn products accordingly during this period.

Gross profit and gross profit margin

Gross profit of the Company for the six months ended 30 June 2013 was approximately RMB23.1 million, which remained stable as compared to that for the six months ended 30 June 2012 of approximately RMB23.1 million. The gross profit margin of the Company slightly decreased from 5.5% for the six months ended 30 June 2012 to 5.2% for the six months ended 30 June 2013. The lower gross profit margin recorded for the six months ended 30 June 2013 was mainly due to the depressed selling prices of yarn products because of challenging market conditions, high cost of cotton resulting from government intervention and competitions from imported yarns with lower cotton prices.

Other Income

Other income increased from approximately RMB9.8 million for the six months ended 30 June 2012 to approximately RMB12.9 million for six months ended 30 June 2013, representing an increase of 31.6% or approximately RMB3.1 million. The increase in other income was mainly due to increase in other government grants and income from scrap sales.

Distribution and selling expenses

Distribution and selling expenses of the Company increased from approximately RMB6.1 million for the six months ended 30 June 2012 to approximately RMB6.7 million for six months ended 30 June 2013, representing an increase of approximately RMB0.7 million, or 10.8%. Distribution and selling expenses as a percentage of turnover of the Company was approximately 1.5% for the six months ended 30 June 2013 (2012: 1.4%). The increase in the Company's distribution and selling expense was mainly due to increase in sales volume from approximately 26,757 tonnes for the six months ended 30 June 2012 to approximately 29,573 tonnes for six months ended 30 June 2013.

Administrative expenses and other gains and losses

Administrative expenses of the Company decreased from approximately RMB11.4 million for the six months ended 30 June 2012 to approximately RMB10.9 million for the six months ended 30 June 2013, representing a decrease of 4.5% or approximately RMB0.5 million. Administrative expenses as a percentage of turnover of the Company was approximately 2.5% for the six months ended 30 June 2013 (2012: 2.7%). The decrease in the Company's administrative expenses was mainly due to reduction in professional fees in the Hong Kong office. Other gains of the Company for the six months ended 30 June 2013 was approximately RMB0.1 million, primarily representing the gain on settlement on foreign currency liabilities. Other losses of the Company for the six months ended 30 June 2012 was approximately RMB1.1 million which primarily represented exchange loss on translation of Hong Kong Dollar based net assets as at 30 June 2012.

Finance cost

Finance cost of the Company for the six months ended 30 June 2013 was approximately RMB5.3 million, representing a decrease of approximately RMB1.6 million, or 22.7%, as compared to that of the corresponding period in 2012. The decrease in the Company's finance cost was mainly due to capitalization of interest expense for construction in progress and reduction in interest rate as a result of the lowering of the relevant base interest rate by the PBOC in July 2012.

Income tax expense

The Group's effective income tax rate for the six months ended 30 June 2013 was approximately 47.6%, as compared to 30.3% for the corresponding period in 2012. The increase in effective income tax rate of the Company was mainly due to provision for PRC enterprise income tax on government grant and withholding taxes on undistributed profits of the Company's subsidiary in 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 2013 was approximately RMB6.9 million, representing an increase of approximately RMB1.8 million, or 34.3%, as compared to that of the six months ended 30 June 2012. The net profit margin of the Group for the six months ended 30 June 2013 was approximately 1.6%, representing an increase of 0.4 percentage points as compared to approximately 1.2% for the six months ended 30 June 2012. The increases in the Company's net profit and net profit margin were mainly due to the increase in other income coupled with decrease in other expenses and finance costs, partially offset by the increase in the Company's provision for income tax expense.

Earnings per share

The basic earnings per share of the Company for the six months ended 30 June 2013 was approximately RMB0.68 cents, representing an increase of approximately 33.3% as compared to approximately RMB0.51 cents for the six months ended 30 June 2012. 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 2013.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC. During the six months ended 30 June 2013, net cash generated from operating activities of the Group amounted to approximately RMB19.3 million (net cash outflow for the six months ended 30 June 2012: RMB48.1 million). The Group had time deposits of approximately RMB3.9 million (31 December 2012: RMB5.1 million), cash and bank balances of approximately RMB59.9 million (31 December 2012: RMB86.8 million) and pledged bank deposits of approximately RMB13.5 million (31 December 2012: RMB16.3 million) as at 30 June 2013. 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. As at 30 June 2013, the Group's interest-bearing borrowings amounted to approximately RMB215.0 million (31 December 2012: RMB215.0 million), RMB208 million (96.7%) of which (31 December 2012: 96.7%) was repayable within one year. These bank borrowings were secured by the Group's land use rights, buildings, plant and machinery with a carrying value of approximately RMB290.0 million in aggregate (31 December 2012: RMB270.8 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 32.9% as at 30 June 2013 (31 December 2012: 36.0%). Net current liabilities and net assets at 30 June 2013 was approximately RMB152.2 million (31 December 2012: RMB116.9 million) and approximately RMB398.6 million (31 December 2012: RMB399.9 million), respectively. The increase in net current liabilities was mainly due to increase of payable for construction in progress.

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 2013. The Group has foreign currency time deposits, cash and bank balances, other receivables and other payable, which mainly expose the Group to risk in Hong Kong Dollars. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 30 June 2013 are approximately RMB3.2 million (31 December 2012: RMB6.4 million) and RMB2.1 million (31 December 2012: RMB1.7 million) respectively.

Contingent Liabilities

As at 30 June 2013, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 30 June 2013, the Group had a total of 1,788 (31 December 2012: 1,826) 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.

PROSPECT

In the first half of 2013, the textile industry in the PRC continued to encounter adversity arising from three major challenges: (i) weak overseas and domestic demand due to sluggish European and US economies and a slowing domestic economy; (ii) disparity in domestic and international cotton prices due to the control by the PRC government over both the prices and import volume of overseas cotton; and (iii) increasing manufacturing costs in the PRC.

Despite the challenging market conditions, the Group managed to increase its profitability. The sales volume of the Group increased from approximately 26,757 tonnes for the six months ended 30 June 2012 to approximately 29,573 tonnes for the six months ended 30 June 2013. The production of the Group increased from approximately 29,593 tonnes for the six months ended 30 June 2012 to approximately 29,786 tonnes for the six months ended 30 June 2013.

Looking forward, the US economy has showed signs of improvement but the European economies appear to remain sluggish. The PRC economy appeared to have avoided a hard landing. The PRC government has set the target growth rate for GDP for 2013 at 7.5% and continues to encourage domestic consumption. Amidst such background, the Company expects the demand for textile in the PRC to improve moderately. The Company expects that the price of cotton will continue to be influenced by various factors including climates, amount of funds investing in commodities and demand from the textile industry. The PRC government has continued to collect cotton reserve in the first half of 2013 at a price of RMB20,400 per tonne. However, in the second quarter of 2013, the price disparity between domestic and international cotton has been lessened by upward movement in international cotton price. The increasing manufacturing cost arising from increased labour cost, utility cost and government levies have been a serious concern for domestic manufacturers for the past few years. The Group will tackle 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 is making good process on its expansion plan, as a new workshop ("Workshop One") and other auxiliary building have been substantially completed. The installation of part of the production machineries has been completed and trial production for testing the new production line has commenced. Upon completion of the installation of Workshop One, the Group's production capacity will be increased from current level of approximately 330,000 spindles to approximately 380,000 spindles. In view of changes in market conditions, the production facilities originally planned for the production of coloured polyester-cotton blended yarn was modified for the production of fine combed cotton yarns for high-end markets. The Group considers changing the product type to cater for high-end markets could improve competitiveness and deliver a higher margin. In view of market uncertainty, the Group will proceed with caution on the introduction of open-end spun production facilities by scaling down the budget for its investment and delaying it until the fourth quarter of 2013.

Taking into account the benefit from the enlarged product portfolio and increased economy of scale as a result of the planned expansion of the production capacity, the Group is confident about its future. The Group also strives to be well positioned to take advantage of any positive outlook in the textile industry given its scale of production, strong brand recognition and professional management.

CHANGE OF USE OF PROCEEDS

Reference is made to the prospectus (the "**Prospectus**") issued by the Company dated 12 December 2011 and Notice of Partial Exercise of Over-Allotment Option issued by the Company dated 16 January, 2012 (the "**Notice**"). As stated in the section headed "Future Plans and Use of Proceeds" in the Prospectus and in the Notice, the Company had intended to apply approximately 28.7% of the net proceeds from the global offering (the "**Net IPO Proceeds**") towards equipment and machinery for the production of open-end spun yarns with a production capacity of approximately 20,000 spindles (the "**Open-end Spun Yarn Production**"); and approximately HK$29.5 million (equivalent to approximately RMB23.5 million) or 19.4% towards payment for construction of new production facility, not including the cost of land use rights. The Net IPO Proceeds received by the Company amounted to approximately HK$152.0 million (equivalent to approximately RMB121.3 million), after deducting underwriting fees and other related expenses from the listing of the Company's shares in December 2011 and including the net proceeds from the partial exercise of the over-allotment option in January 2012 as disclosed in the Notice. Accordingly, approximately HK$43.6 million (equivalent to approximately RMB34.8 million), had been designated to be used for Open-end Spun Yarn Production. Nevertheless, due to change in market conditions as a result of increased competition of imported lower-end yarn products, the Company decided to reduce the Net IPO Proceeds allocated to the Open-end Spun Yarn Production by approximately HK$31.1 million, and utilize such part of Net IPO Proceeds as payment for construction of the Company's new production facility, not including the cost of land use right. The revised amount of the Net IPO Proceeds to be utilized for Open-end Spun Yarn Production is approximately HK$12.5 million (equivalent to approximately RMB10 million); and the total amount of the Net IPO Proceeds utilized and to be utilized as payment for construction of the Company's new production facility, not including the cost of land use right, will be approximately HK$60.6 million (equivalent to approximately RMB48.4 million).

In addition, as disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus and in the Notice, the Company had intended to apply 40.9% of the Net IPO Proceeds towards equipment and machinery for the production of coloured polyester-cotton blended yarn with a production capacity of approximately 60,000 spindles (the "**Coloured Yarn Production**"). Accordingly, approximately HK$62.2 million (equivalent to approximately RMB48.4 million) had been designated to be used for Coloured Yarn Production and the Company has applied such funds to purchase the relevant equipment and machinery. However, due to changes in market conditions, additional investments have been made to modify the production facilities plant, in which the equipment and machinery purchased for Coloured Yarn Production have been installed, and convert it for the production of combed fine cotton yarn products, as the Company considers such products are for the high-end markets and will be more competitive and could deliver a better margin. The capacity of the new combed fine cotton yarn production line will be approximately 50,000 spindles and the total investment in the combed fine cotton yarn production line will be approximately HK$145.9 million (equivalent to approximately RMB116.4 million). The additional investment will be funded by the internal resources of the Company and bank borrowings.

DIVIDEND

The board of Directors of the Company does not recommend an interim dividend in respect of the six months ended 30 June 2013.

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 2013.

CODE OF CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2013, the Company had complied with the code provisions of the existing Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 2013.

AUDIT COMMITTEE

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 approved the condensed consolidated financial statements for the six months ended 30 June 2013. The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2013 has 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 2013 containing all the information required by the Listing Rules will be dispatched to 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, 23 August, 2013

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.