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 YEAR ENDED 31 DECEMBER 2018

The board (the "**Board**") of directors (the "**Directors**") of China Weaving Materials Holdings Limited (the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the financial year ended 31 December 2018 together with the comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December	
	Note	**2018** *RMB'000*	2017 *RMB'000*
Revenue	4	**1,836,161**	1,582,558
Cost of sales		**(1,640,190)**	(1,440,088)
Gross profit		**195,971**	142,470
Other income	5	**31,231**	22,227
Other gains and losses	6	**(2,723)**	22,129
Distribution and selling expenses		**(25,752)**	(24,245)
Administrative expenses		**(53,711)**	(49,948)
Finance costs	7	**(35,665)**	(55,774)
Profit before tax		**109,351**	56,859
Income tax expense	8	**(29,319)**	(8,914)
Profit and total comprehensive income for the year	9	**80,032**	47,945
Profit and total comprehensive income for the year attributable to:			
Owners of the Company		**80,309**	50,293
Non-controlling interests		**(277)**	(2,348)
		80,032	47,945
Earnings per share	11		
– Basic		**RMB6.41 cents**	RMB4.02 cents
– Diluted		**RMB6.41 cents**	RMB2.12 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31 December **2018** *RMB'000*	2017 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,082,457**	1,092,147
Prepaid lease payments		**42,364**	43,279
Intangible asset		**–**	17
Deposits on acquisition of property, plant and equipment		**2,760**	1,163
Goodwill		**20,617**	20,617
		1,148,198	1,157,223
Current assets			
Inventories		**249,100**	244,793
Trade and other receivables	12	**31,724**	34,123
Bills receivable		**8,800**	21,834
Prepaid lease payments		**1,079**	1,075
Pledged bank deposits		**69,791**	46,276
Restricted bank deposit		**500**	–
Cash and bank balances		**47,548**	57,796
		408,542	405,897
Current liabilities			
Trade and other payables	13	**214,477**	335,203
Contract liabilities		**28,017**	–
Bills payable		**173,780**	121,824
Deferred income		**227**	227
Finance lease payables		**25,064**	2,875
Bank borrowings		**365,923**	462,649
Current tax liabilities		**8,688**	8,462
		816,176	931,240
Net current liabilities		**(407,634)**	(525,343)
Total assets less current liabilities		**740,564**	631,880

	At 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current liabilities		
Deferred income	**7,483**	7,710
Bank borrowings	**24,176**	65,340
Entrusted loan payable	**50,000**	–
Deferred tax liabilities	**37,384**	17,341
	119,043	90,391
Net assets	**621,521**	541,489
Capital and reserves		
Share capital	**101,989**	101,989
Reserves	**490,170**	409,861
Equity attributable to the owners of the Company	**592,159**	511,850
Non-controlling interests	**29,362**	29,639
Total equity	**621,521**	541,489

NOTES:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board (the "**IASB**"). IFRSs comprise individual International Financial Reporting Standards ("**IFRS**"); International Accounting Standards; and Interpretations. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As of 31 December 2018, the Group had net current liabilities of approximately RMB407,634,000. 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 consolidated financial statements have been prepared on a going concern basis as the directors 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 consolidated financial statements authorised for issue, the Group's bankers agreed to renew bank borrowings amounting to approximately RMB114,600,000 currently included in current liabilities at 31 December 2018.

    (ii) Undrawn banking facilities amounting to approximately RMB24,592,000.

    (iii) Subsequent to the date of the reporting period, the Group has also successfully obtained new banking facilities of approximately RMB82,500,000.

    (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 consolidated financial statements have 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 the consolidated financial statements.

2. ADOPTION OF NEW AND REVISED IFRSs

(a) Application of new and revised IFRSs

The IASB has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following developments are relevant to the Group's consolidated financial statements:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 Financial Instruments

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(i) Classification

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

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL"), and

- those to be measured at amortised cost.

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

(ii) Measurement

The Group reclassifies debt instruments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

(iii) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

IFRS 9 requires the Group to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances. For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group has not recognised loss allowance upon the initial recognition of IFRS 9 as the amount involved is insignificant.

The Group's bills receivable are managed with a business model under which bills receivables are not held to collect contractual cash flows but endorsed to suppliers prior to their expiry date. Accordingly, these bills receivables are reclassified as FVTPL upon the adoption of IFRS 9.

IFRS 15 Revenue from Contacts with Customers

The adoption of IFRS 15 resulted in the following changes to the Group's accounting policies.

The Group manufactures and sell yarn products and related raw materials in the market. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specific location.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods. There is no significant impact of transition to IFRS 15 on retained profits at 1 January 2018.

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. To reflect this change in presentation, deposits from customers of approximately RMB13,092,000 previously included in trade and other payables were reclassified to contract liabilities at 1 January 2018 upon application of IFRS 15.

Further details on the adoption of IFRS 9 and IFRS 15 are to be disclosed in the annual report for the year ended 31 December 2018.

Apart from the above, the application of the relevant IFRSs has had no material impact on the Group's consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
Annual Improvements to IFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these new and revised IFRSs is expected to be in the period of initial application. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the new and revised IFRSs may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the new and revised IFRSs are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the new and revised IFRSs are initially applied in that interim financial report.

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 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 year ended 31 December 2018, the CODM has identified the following two reportable segments under IFRS 8 "Operating Segments". No operating segments have been aggregated to form the following reportable segments.

(a) Yarns – manufacturing and trading of yarns

(b) Staple fibres – manufacturing and trading of polyester staple fibres

The operations of Jinyuan Textile Co., Ltd. Jiangxi ("**Jiangxi Jinyuan**"), 江西華春色紡科技發展有限公司 (for identification purpose, Jiangxi Huachun Color Spinning Technology Development Co., Ltd. ("**Huachun**")) and Treasure Resources Corporation Limited ("**Treasure Resources**") represent the operating and reportable segment of the sales of yarns.

The operation of 江西鑫源特種纖維有限公司 (for identification purpose, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**")) represents the operating and reportable segment of the sales of polyester staple fibres.

The Group accounts for intersegment sales and transfer as if the sales or transfers were to third parties, i.e. at current market prices.

Segment assets and liabilities are not reported or used by the CODM.

Information about reportable segment profit or loss:

	Yarns	**Staple Fibres**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Year ended 31 December 2018			
Revenue from external customers	**1,726,879**	**109,282**	**1,836,161**
Intersegment revenue	**–**	**68,494**	**68,494**
Interest income	**941**	**12**	**953**
Interest expense	**(32,874)**	**(2,328)**	**(35,202)**
Depreciation and amortisation	**(57,105)**	**(4,798)**	**(61,903)**
Profit/(Loss) of reportable segments	**101,332**	**(814)**	**100,518**

	Yarns	Staple Fibres	Total
	RMB'000	*RMB'000*	*RMB'000*
Year ended 31 December 2017			
Revenue from external customers	1,540,277	42,281	1,582,558
Intersegment revenue	–	54,946	54,946
Interest income	1,109	7	1,116
Interest expense	(53,425)	(2,226)	(55,651)
Depreciation and amortisation	(54,878)	(4,677)	(59,555)
Impairment loss on goodwill	(14,212)	–	(14,212)
Profit/(Loss) of reportable segments	60,371	(5,671)	54,700

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

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Total revenue of reportable segments	**1,904,655**	1,637,504
Elimination of intersegment revenue	**(68,494)**	(54,946)
Group's revenue	**1,836,161**	1,582,558
Profit or loss		
Total profit of reportable segments	**100,518**	54,700
Elimination of intersegment losses	**50**	143
Adjusted for income in relation to government grants	**10,860**	3,919
Unallocated income/(expense):		
Other income, gains and losses	**(165)**	188
Administrative and other expenses	**(1,912)**	(2,091)
Income tax expenses	**(29,319)**	(8,914)
Group's profit for the year	**80,032**	47,945

Geographical information

Over 99% (2017: 99%) of the Group's non-current assets were located in the PRC, and accordingly, no related geographical information of non-current assets is presented.

Over 99% (2017: 97%) of the Group's revenue were derived from sales of yarns and polyester staple fibres in the PRC based on where goods are delivered to, which are also same as the location of customers.

Information about major customers

No revenue from single customer contributed over 10% of the total sales of the Group in the years ended 31 December 2018 and 2017.

4. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and related raw materials. The Group derives revenue from transfer of goods at a point of time. Revenue represents the sales value of goods sold less returns, discounts and value added taxes.

5. OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income on bank deposits	**959**	1,118
Government grants	**10,860**	3,919
Income from scrap sales	**18,578**	16,422
Rental income	**798**	368
Others	**36**	400
	31,231	22,227

6. OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Impairment loss on goodwill	**–**	(14,212)
Net foreign exchange (loss)/gain	**(2,151)**	5,665
Loss on disposal of property, plant and equipment	**(769)**	(537)
Realised loss on financial assets at fair value through profit and loss	**–**	(1,150)
Loss on redemption of note instruments	**–**	(210)
Loss on redemption of convertible bond	**–**	(18,280)
Fair value gain on derivative component of convertible bond	**–**	50,853
Others	**197**	–
	(2,723)	22,129

7. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowings	**35,077**	31,376
Interest on entrusted loan	**125**	–
Interest on consideration payables	**–**	4,053
Interest on convertible bond	**–**	18,986
Interest on notes payable	**–**	1,236
Finance leases charges	**463**	123
	35,665	55,774

8. INCOME TAX EXPENSE

	2018 *RMB'000*	2017 *RMB'000*
Current tax		
PRC Enterprise Income Tax ("**EIT**")		
Provision for the year	**9,594**	8,075
Over-provision in prior year	**(318)**	(367)
	9,276	7,708
Deferred tax	**20,043**	1,206
Total	**29,319**	8,914

No provision for Hong Kong Profits Tax for the years ended 31 December 2018 and 2017 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

The tax charge in respect of the current year represents EIT in the PRC which is calculated at the prevailing tax rate on the taxable income of the subsidiaries in the PRC.

Jiangxi Jinyuan, the Company's subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2014. As such, the EIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2018 and 2017.

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

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

According to the PRC EIT law, withholding income tax at a rate of 10% would be imposed on dividends relating to profits earned from year 2008 onwards to foreign investors for the companies established in the PRC. Such dividend tax rate may be further reduced by applicable tax treaties or arrangement. According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the withholding tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is further reduced to 5% if the Hong Kong resident enterprise holds at least 25% equity interests in the PRC resident enterprise.

9. PROFIT FOR THE YEAR

	2018	2017
	RMB'000	*RMB'000*
The Group's profit for the year is stated after charging the following:		
Auditor's remuneration		
– Audit	**887**	866
– Others	**257**	234
	1,144	1,100
Operating lease charges		
– Amortisation of prepaid lease payments	**1,077**	1,083
– Land and buildings	**507**	514
Amortisation of intangible asset (included in administrative expenses)	**17**	50
Cost of inventories sold	**1,640,190**	1,440,088
Depreciation	**60,879**	58,494

Cost of inventories sold includes employee benefits expense and depreciation of approximately RMB169,016,000 (2017: RMB147,077,000) and RMB52,120,000 (2017: RMB49,288,000), respectively.

10. DIVIDENDS

The Board of Directors of the Company does not recommend any dividend in respect of the years ended 31 December 2018 and 2017.

11. EARNINGS PER SHARE

(a) Basic

The calculation of the basic earnings per share is based on the profit for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2017: 1,252,350,000) in issue during the year.:

	2018	2017
Earnings	***RMB'000***	*RMB'000*
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**80,309**	50,293

	2018	2017
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,252,350**	1,252,350

(b) Diluted

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**80,309**	50,293
Finance costs saving on conversion of convertible bond outstanding	**–**	17,655
Loss on redemption of convertible bond	**–**	17,331
Fair value gain on derivative component of convertible bond	**–**	(50,853)
Effect of exchange difference in profit or loss that would result from the conversion of convertible bond outstanding	**–**	(4,130)
Earnings for the purpose of calculating diluted earnings per share	**80,309**	30,296

	2018	2017
Number of shares	***'000***	*'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 on conversion of convertible bond outstanding	**–**	174,345
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,252,350**	1,426,695

12. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
– Third parties	**21,061**	11,011
– A related company	**–**	350
	21,061	11,361
Advance payment to suppliers	**7,318**	8,868
Prepayments and other receivables	**1,021**	2,212
Other tax recoverables	**2,324**	11,682
	31,724	34,123

In general, the Group receives advance or bills 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.

No interest is charged on overdue trade receivables. In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period.

The following is an analysis of trade receivables by age, presented based on the invoice date which approximates the respective revenue recognition dates.

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**18,838**	9,172
31 – 90 days	**2,130**	1,620
Over 90 days	**93**	569
	21,061	11,361

Before accepting any new customer, the Group has assessed the potential customer's credit quality. The Group reviews the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable. For the trade receivables which are past due but not impaired, management considered the balances are with good credit quality with reference to their past repayment history.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB1,763,000 (2017: RMB1,638,000) at 31 December 2018 which are past due as at the reporting date for which the Group has not provided for impairment loss. Based on historical experience, the receivables are generally recoverable as supported by on-going settlements from customers. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

	2018	2017
	RMB'000	*RMB'000*
1 – 30 days	**1,670**	903
31 – 90 days	**26**	166
Over 90 days	**67**	569
Total	**1,763**	1,638

13. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**66,776**	56,734
Other payables	**6,965**	14,306
Other tax payables	**12,825**	13,314
Accrued salaries and wages	**19,532**	16,275
Other accrued charges	**93,870**	83,469
Payables for acquisition of property, plant and equipment	**14,266**	12,170
Deposits from customers	**–**	13,092
Dividend payables	**243**	243
Accrued interests on consideration payables	**–**	3,600
Amounts due to related companies	**–**	122,000
	214,477	335,203

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:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**51,308**	45,593
31 – 90 days	**13,837**	10,237
Over 90 days	**1,631**	904
	66,776	56,734

In general, the Group makes advance payment to suppliers before the materials or goods are received. The creditors may, in some cases, allow a credit period and the average credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

EXTRACT OF THE AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2018:

"Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standard Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB407,634,000 as at 31 December 2018. As stated in Note 2, this event or condition indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

MARKET OVERVIEW

In 2018, the United States (the "**US**") has achieved a GDP growth rate of around 3.0%, which was the highest growth rate since 2015. However, the GDP growth rate of the European Union (the "**EU**") countries was only around 1.9%. The GDP growth rate in the People's Republic of China (the "**PRC**") slightly decreased from a rate of 6.9% for 2017 to 6.6% for 2018. The PRC economy has slowed down after years of rapid growth. Instead of pursuing economic growth in quantitative terms, the PRC government is now keen on pursuing sustainable development and putting emphasis on stabilization of employment and financial systems.

In the first three quarters of 2018, the fundamental supply and demand in the global oil market was generally balanced, while the international crude oil price fluctuated with a general tendency to move upwards. Despite the significant drop in oil prices in the fourth quarter, the international average crude oil price of 2018 experienced a relatively significant rise as compared with the previous year. The upward trend of international crude oil price has pushed up the prices of oil related downstream products, including raw materials for polyester yarn products. Due to higher raw materials prices, selling prices of polyester related yarn products experienced a relatively significant rise in 2018 as compared with the previous year. Such upward rising trend has benefited the polyester related yarn products market.

In terms of textile raw materials, the international market witnessed greater fluctuations in cotton price in 2018. During the first half of the year, driven by several factors including strong global demand and the lower than expected cotton output by the US and India, the international cotton price increased significantly. Affected by the trade friction, the cotton price began to drop from the high level during the second half of the year. In the PRC, the government continued with the policy of direct subsidy to cotton farmers and has auctioned the national cotton reserve in an orderly manner. The domestic cotton prices in the PRC remained relatively stable in 2018. The price gap between international cotton prices and domestic cotton prices further narrowed in the second half of 2018 and this has created a better competitive environment for the domestic cotton yarn manufacturers with few or no import quotas.

An upward price trend of the basic raw materials for polyester related yarn products driven by oil related downstream products, the narrowing of price gap between domestic cotton prices and international cotton prices and the increase in internal consumption in the PRC domestic economy have contributed to favourable market conditions for the textile industry as a whole. However, the escalation of trade war between the US and the PRC in 2018 has introduced great risk and uncertainty for exporters and general business. Apart from an immediate damping effect on consumption and investment, the threat of trade war between the US and the PRC has forced US importers to diversify sourcing of goods which has serious implication for supply chain management. Consequently, manufacturers in the PRC are likely to accelerate the relocation of their manufacturing bases from the PRC to other Asian countries with better competitive advantages in terms of costs and tariff. In Europe, Brexit and political unrest in certain major European countries continued to hinder the economical recovery. The threat of trade war from the US and a weak European economy are unfavourable factors for the exporters of the PRC. On the domestic side, a slowing domestic economy, the stepping up of enforcement of environment protection, rising labour cost and keen competition from excess capacities have made business difficult. Both external and internal factors have introduced risk and uncertainties for the industry as a whole.

BUSINESS REVIEW

The sales volume of yarn products of China Weaving Materials Holdings Limited (the "**Company**") together with its subsidiaries, (the "**Group**") was approximately 119,506 tonnes for the year ended 31 December 2018, which remained almost the same as approximately 120,197 tonnes for the year ended 31 December 2017. The production volume of yarn products of the Group increased by 2.6% from approximately 119,699 tonnes for the year ended 31 December 2017 to approximately 122,856 tonnes for the year ended 31 December 2018. The revenue of the Group increased by 16.0% to approximately RMB1,836.2 million for the year ended 31 December 2018 as compared to RMB1,582.6 million for the year ended 31 December 2017. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2018 were approximately RMB196.0 million and approximately RMB80.3 million, respectively.

In 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group has put more emphasis on generating more sales from polyester-cotton blended yarn products with higher cotton contents, which were generally higher end products with better selling prices and margins. The Group also generated more sales from viscose related yarn products, further diversifying the product and customer mix of the Group. In addition to the introduction of viscose related yarn products, the Group has also introduced cotton-modal blended yarns products and polyester-acrylonitrile blended yarn products. The Group is offering more than 100 types of yarns 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 stepped up its commercial operation in 2018. Xinyuan is engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. Xinyuan's sales volume increased from approximately 14,821 tonnes for the year ended 31 December 2017 to approximately 20,000 tones for the year ended 31 December 2018 and production volume increased from approximately 16,558 tonnes for the year ended 31 December 2017 to approximately 18,000 tonnes for the year ended 31 December 2018.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2018 was approximately RMB1,836.2 million, representing an increase of approximately RMB253.6 million, or 16.0%, as compared to the year ended 31 December 2017. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2018 *RMB'000*		Year ended 31 December 2017 *RMB'000*	
Polyester yarn	**599,412**	**32.6%**	463,264	29.3%
Polyester-cotton and viscose -cotton blended yarns	**745,522**	**40.6%**	659,392	41.7%
Grey and deep grey melange and melange – cotton blended yarns	**215,486**	**11.7%**	232,035	14.6%
Viscose and stretchable core viscose yarns	**126,704**	**6.9%**	144,205	9.1%
Cotton yarns	**37,251**	**2.1%**	40,804	2.6%
Raw material	**111,786**	**6.1%**	42,858	2.7%
	1,836,161	**100.0%**	1,582,558	100.0%

The increase in the revenue of the Group for the year ended 31 December 2018 was mainly attributable to the increase in the overall average selling price of yarn products of the Group, which increased by approximately 12.6% from approximately RMB12,810 per tonne for the year ended 31 December 2017 to approximately RMB14,429 per tonne for the year ended 31 December 2018. The increase in the overall average selling price of yarn products of the Group was mainly due to i) the increase in average selling prices of mainstream polyester yarn products driven by the increase in the price of PSF, the raw material and ii) change in product mix of the Group as the Group enriched its product portfolio and generated more sales from polyester-cotton blended yarn products with higher cotton content, which generally deliver higher selling prices.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB142.5 million for the year ended 31 December 2017 to approximately RMB196.0 million for the year ended 31 December 2018. The gross profit margin of the Group increased from approximately 9.0% for the year ended 31 December 2017 to approximately 10.7% for the year ended 31 December 2018. The increase in gross profit was mainly due to the increase in sales revenue and gross profit margin. The increase in sales revenue was mainly due to the increase in the overall average selling price of yarn products of the Group. There was an increase in the selling prices of the yarn products of the Group driven by the increase in prices of raw material during the first ten months of 2018. The rate of increase in the overall average selling price of yarn products of the Group has been faster than that of the raw material and thus resulted in a better margin. Also, the Group has improved the product mix of its yarn products and generated more sales from polyester-cotton blended yarn products with higher cotton content which generally delivered a better margin.

Other Income

Other income of the Group increased from approximately RMB22.2 million for the year ended 31 December 2017 to approximately RMB31.2 million for the year ended 31 December 2018, representing an increase of approximately RMB9.0 million or 40.5%. The increase in other income was mainly due to an increase in government grants and income from scrap sales.

Other Gains and Losses

Other losses for the year ended 31 December 2018 was approximately RMB2.7 million while other gains for the year ended 31 December 2017 was approximately RMB22.1 million. Other losses in 2018 were mainly due to net foreign exchange loss of approximately RMB2.2 million and loss on disposal of plant and equipment of approximately RMB0.8 million. Other gains in 2017 were mainly due to gain on early redemption of convertible bond of approximately RMB32.6 million and net exchange gain of approximately RMB5.7 million. Those gains were partly offset by loss on impairment of goodwill of approximately RMB14.2 million.

Distribution and Selling Expenses

Distribution and selling expenses of the Group increased slightly from approximately RMB24.2 million for the year ended 31 December 2017 to approximately RMB25.8 million for the year ended 31 December 2018, representing an increase of 6.6% or approximately RMB1.6 million. The increase was mainly due to the change in destination mix of customers. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.4% for the year ended 31 December 2018 (year ended 31 December 2017: 1.5%).

Administrative Expenses

Administrative expenses of the Group increased from approximately RMB49.9 million for the year ended 31 December 2017 to approximately RMB53.7 million for the year ended 31 December 2018, representing an increase of 7.6% or approximately RMB3.8 million. The increase was mainly due to increase in staff cost, including directors' remuneration. Administrative expenses as a percentage of revenue of the Group was approximately 2.9% for the year ended 31 December 2018 (year ended 31 December 2017: 3.2%)

Finance Costs

Finance costs of the Group decreased from approximately RMB55.8 million for the year ended 31 December 2017 to approximately RMB35.7 million for the year ended 31 December 2018, representing a decrease of 36.0% or approximately RMB20.1 million. The decrease in the Group's finance costs was mainly due to i) the decrease in interest on convertible bond and notes payable of approximately RMB19.0 million and RMB1.3 million respectively as a result of their early redemption in 2017 and ii) decrease in interest on outstanding consideration payable arising from the acquisition of a subsidiary in the PRC of approximately RMB4.1 million.

Income Tax Expense

The Group's effective income tax rate for the year ended 31 December 2018 was approximately 26.8%, as compared to 15.7% for the year ended 31 December 2017. The increase in the effective income tax rate of the Group was mainly due to an increase in the provision of deferred tax charge. The deferred tax charge of the Group increased from approximately RMB1.2 million for the year ended 31 December 2017 to approximately RMB20.0 million for the year ended 31 December 2018. The increase in deferred tax charge was mainly due to the recognition of deferred tax liabilities of approximately RMB24.3 million in respect of certain accelerated tax depreciation of the Group, which was partly offset by the recognition of deferred tax assets of approximately RMB5.9 million in relation to unused tax losses of the Group.

Profit Attributable to Owners of the Company and Net Profit Margin

Profit attributable to owners of the Company for the year ended 31 December 2018 was approximately RMB80.3 million, representing an increase of approximately RMB30.0 million, or 59.6%, as compared to that for the year ended 31 December 2017. The net profit margin of the Group for the year ended 31 December 2018 was 4.4% as compared with 3.2% for the year ended 31 December 2017. The increase in the Group's net profit was mainly due to the increase in gross profit and other income of approximately RMB53.5 million and RMB9 million respectively and the decrease in finance cost of approximately RMB20.1 million. Such credits were partly offset by the decrease in other gains of approximately RMB24.8 million.

Earnings Per Share

The basic earnings per share of the Company increased from approximately RMB4.02 cents for the year ended 31 December 2017 to approximately RMB6.41 cents for the year ended 31 December 2018, representing an increase of approximately 59.5% or RMB2.39 cents. The diluted earnings per share of the Company increased from approximately RMB2.12 cents for the year ended 31 December 2017 to approximately RMB6.41 cents for the year ended 31 December 2018, representing an increase of approximately 3 times or RMB4.29 cents. The increase in basic earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2018. The increase in diluted earnings per share of the Company was due to the increase in net profit for the year ended 31 December 2018 and the absence of dilution effect as the Company redeemed its outstanding convertible bond in 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 year ended 31 December 2018, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB47.5 million (31 December 2017: RMB57.8 million), pledged bank deposits of approximately RMB69.8 million (31 December 2017: RMB46.3 million) and restricted bank deposit of approximately RMB0.5 million (31 December 2017: Nil) as at 31 December 2018. The Group's cash and bank balances were mainly held in Hong Kong Dollars, US Dollars and RMB.

Capital Structure and Pledge on Assets

The Group's interest-bearing borrowings were made in RMB and Hong Kong dollars. As at 31 December 2018, the Group's interest-bearing borrowings amounted to approximately RMB465.2 million (31 December 2017: RMB530.9 million), RMB391.0 million (84.0%) of which (31 December 2017: RMB465.5 million (87.7%)) 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 RMB772.3 million in aggregate (31 December 2017: RMB767.2 million). The share capital of a subsidiary company of the Group was also pledged to secure the Group's banking facilities.

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, finance leases payables, bills payable and entrusted loan payable to total assets, was approximately 41.0% as at 31 December 2018 (31 December 2017: 41.9%). Net current liabilities and net assets at 31 December 2018 was approximately RMB407.6 million (31 December 2017: RMB525.3 million) and approximately RMB621.5 million (31 December 2017: RMB541.5 million), respectively.

Foreign Exchange Exposure

As the Group conducts business transactions principally in RMB, the management considered the exchange rate risk at the Group's operational level is not significant. Accordingly, the Group had not used any financial instruments for hedging purposes during the year ended 31 December 2018. The Group has foreign currency cash and bank balances, trade and other receivables, bank borrowing, finance lease payable 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 31 December 2018 were approximately RMB4.7 million (31 December 2017: RMB15.5 million) and RMB32.8 million (31 December 2017: RMB29.6 million), respectively.

Contingent Liabilities

As at 31 December 2018, the Group did not have any significant contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 31 December 2018, the Group had a total of 3,196 employees (31 December 2017: 3,073). 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 year ended 31 December 2018, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

An upward price trend in the prices of the raw materials and the continuing increase in internal consumption in the domestic economy in the PRC contributed to favourable factors for the industry. However, unfavourable factors including impact of environment protection regulations, poor overseas demand, keen domestic and overseas competition and the potential of a full scale trade war have introduced risk and uncertainties into the industry.

In 2018, the Group has continued to rationalize its production capacities and further diversified its product portfolio. The Group is offering more than 100 types of yarns with different material mix and counts to satisfy the needs of different customers. The Group has begun its upward vertical integration by establishing Xinyuan, which is engaged in the manufacturing of polyester staple fibres. Xinyaun has stepped up its commercial operation in 2018.

Looking forward, unfavourable external and internal factors will continue to pose challenges to the textile industry in the PRC. However, the recent decision by the PRC government to substantially reduce taxes and levies will provide some relief to local businesses and it is likely that the US and the PRC will reach an agreement on trade deal. Accordingly, there are some grounds for optimism in the future. 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 year ended 31 December 2018.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the "**Annual General Meeting**") will be held on Wednesday, 5 June 2019. Notice of the Annual General Meeting will be published and dispatched to the shareholders of the Company (the "**Shareholders**") in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders entitled to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Friday, 31 May 2019 to Wednesday, 5 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Annual General Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Thursday, 30 May 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company during the year ended 31 December 2018.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2018, the Company had complied with the code provisions of the existing Corporate Governance Code (the "**CG Code**") and Corporate Governance Report as set out in Appendix 14 to the 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 year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and reviewed the audited consolidated financial statements for the year ended 31 December 2018.

SCOPE OF WORK OF RSM HONG KONG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final 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 annual report of the Company for the year ended 31 December 2018 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, 29 March, 2019

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.