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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 2022

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 2022 together with the comparative figures for the corresponding period in 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2022	2021
		(unaudited)	(unaudited)
		RMB'000	RMB'000
	<i>Note</i>		
Revenue	4	697,219	767,907
Cost of sales		(608,286)	(614,201)
Gross profit		88,933	153,706
Other income	5	13,949	20,976
Other gains and losses		(916)	(384)
Distribution and selling expenses		(12,286)	(12,170)
Administrative expenses		(26,009)	(29,050)
Finance costs		(12,848)	(12,057)
Profit before tax		50,823	121,021
Income tax expense	6	(17,165)	(17,085)
Profit and total comprehensive income for the period	7	33,658	103,936
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		33,658	102,081
Non-controlling interests		–	1,855
		33,658	103,936
Earnings per share	9		
– Basic		RMB2.69 cents	RMB8.15 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2022 (unaudited) <i>RMB'000</i>	31 December 2021 (audited) <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		953,250	899,158
Right-of-use assets		47,291	48,316
Deposits on acquisition of property, plant and equipment		26,246	10,267
Goodwill		20,617	20,617
Deferred tax assets		–	5,412
		1,047,404	983,770
Current assets			
Inventories		370,903	314,647
Trade and other receivables	10	47,180	47,498
Bills receivable		6,615	370
Pledged bank deposits		109,446	60,246
Cash and bank balances		208,594	283,034
		742,738	705,795
Current liabilities			
Trade and other payables	11	252,668	215,454
Contract liabilities		36,554	24,763
Bills payable		81,277	47,319
Deferred income		264	264
Lease liabilities		1,544	2,765
Bank and other borrowings		522,908	501,061
Current tax liabilities		13,464	23,784
		908,679	815,410
Net current liabilities		(165,941)	(109,615)
Total assets less current liabilities		881,463	874,155

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
Non-current liabilities		
Deferred income	6,434	6,566
Bank and other borrowings	71,413	49,413
Deferred tax liabilities	42,266	36,982
	<u>120,113</u>	<u>92,961</u>
Net assets	<u>761,350</u>	<u>781,194</u>
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	101,989	101,989
Reserves	659,361	679,205
	<u>761,350</u>	<u>781,194</u>
Total equity	<u>761,350</u>	<u>781,194</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated financial information should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 December 2021. The accounting policies and methods of computation used in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the audited consolidated financial statements of the Group for the year ended 31 December 2021 and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2022.

At 30 June 2022, the Group’s current liabilities exceeded its current assets by approximately RMB165,941,000. 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 unaudited condensed consolidated financial information has been prepared on a going concern basis as the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Group and are satisfied that:

- (a) The banking facilities from the Group’s bankers for its working capital requirements for the next twelve months will be available as and when required, having regard to the following:
 - (i) The Group can successfully obtain its bankers’ approval for rollover of its short-term bank borrowings. Up to the date of the unaudited condensed consolidated financial information authorised for issue, certain bankers have agreed to renew the Group’s bank borrowings amounting to approximately RMB48,000,000 currently included in current liabilities at 30 June 2022.
 - (ii) The Group will also continue to seek for further financing. Certain existing property, plant and equipment and right-of-use assets can be offered as security for further financing.
- (b) In the light of the COVID-19 pandemic, the Group is closely monitoring the latest developments and will continue to assess the impact of the COVID-19 pandemic, as well as any change in government policy, on the Group’s operations from time to time and adjust its production and sales strategies for its business to generate sufficient operating cash flows.

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 unaudited condensed consolidated financial information has been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in this unaudited condensed consolidated financial information.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financing Reporting Standards (“**IFRSs**”) issued by the IASB that are effective for its accounting year beginning on 1 January 2022. IFRSs comprise individual International Financing Reporting Standards (“**IFRS**”); International Accounting Standards; and Interpretations. The adoption of these new developments of IFRSs does not have any impact on the Group’s unaudited condensed consolidated financial information. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

The accounting policies applied in this unaudited condensed consolidated financial information are consistent with those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2021, except for the first time adoption of new and revised IFRSs, which are mandatorily effective for the period beginning on or after 1 January 2022 as set out below:

Amendments to IFRS 3 Business Combinations – Reference to the Conceptual Framework
Amendments to IAS 16 Property Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and
IAS 41 – Annual Improvements to IFRSs 2018 – 2020 Cycle

The adoption of these new and revised standards does not have significant impact on this unaudited condensed consolidated financial information.

3. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the People’s Republic of China (“**PRC**”) according to the types of goods delivered, and are regularly reviewed by the chief operating decision-maker (the “**CODM**”) to allocate resources to the segments and to assess their performance focuses on type of goods delivered.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive director of the Company.

During the six months ended 30 June 2022, 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 represent the operating and reportable segment of the sales of yarns.

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

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

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

Information about reportable segment profit or loss:

	Yarns (unaudited) RMB’000	Staple fibres (unaudited) RMB’000	Total (unaudited) RMB’000
Six months ended 30 June 2022			
Revenue from external customers	651,838	45,381	697,219
Intersegment revenue	–	44,990	44,990
Interest income	2,031	22	2,053
Interest expense	(11,146)	(1,702)	(12,848)
Depreciation	(31,603)	(1,699)	(33,302)
Other material non-cash item:			
Allowance for inventories	–	(655)	(655)
Profit of reportable segments	52,126	302	52,428

	Yarns (unaudited) RMB'000	Staple fibres (unaudited) RMB'000	Total (unaudited) RMB'000
Six months ended 30 June 2021			
Revenue from external customers	733,429	34,478	767,907
Intersegment revenue	–	49,423	49,423
Interest income	1,858	7	1,865
Interest expense	(10,045)	(2,000)	(12,045)
Depreciation	(33,539)	(1,626)	(35,165)
Other material non-cash item:			
Reversal of allowance for inventories	–	152	152
Profit of reportable segments	<u>107,144</u>	<u>7,402</u>	<u>114,546</u>

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

	Six months ended 30 June	
	2022 (unaudited) RMB'000	2021 (unaudited) RMB'000
Revenue		
Total revenue of reportable segments	742,209	817,330
Elimination of intersegment revenue	(44,990)	(49,423)
Group's revenue	<u>697,219</u>	<u>767,907</u>
Profit or loss		
Total profit of reportable segments	52,428	114,546
Elimination of intersegment (gains)/losses	(548)	8
Adjusted for income in relation to government grants	353	7,807
Unallocated amounts:		
Other income, gains and losses	(347)	(150)
Administrative and other expenses	(1,063)	(1,190)
Income tax expense	(17,165)	(17,085)
Group's profit for the period	<u>33,658</u>	<u>103,936</u>

4. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products and polyester staple fibres. The Group derives revenue from transfer of goods at a point in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the six months ended 30 June 2022 is as follows:

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15 Revenue from Contracts with Customers		
Disaggregated by major products		
– Sales of yarns	651,838	733,429
– Sales of polyester staple fibres	45,381	34,478
	<u>697,219</u>	<u>767,907</u>

5. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Interest income	2,053	1,866
Government grants	353	7,807
Income from scrap sales	10,871	10,765
Rental income	540	501
Others	132	37
	<u>13,949</u>	<u>20,976</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
PRC Corporate Income Tax (“CIT”)		
Provision for the period	6,985	14,275
Over-provision in prior year	(516)	(1,550)
Deferred tax	10,696	4,360
	<u>17,165</u>	<u>17,085</u>

No provision for Hong Kong Profits Tax for the six months ended 30 June 2022 and 2021 have been made as there is no assessable profit subject to Hong Kong Profits Tax.

CIT is calculated at the prevailing tax rate on the taxable income of the subsidiaries in the PRC.

7. PROFIT FOR THE PERIOD

The Group’s profit for the period is stated after charging/(crediting) the following:

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation		
– Owned property, plant and equipment	32,385	32,527
– Right-of-use assets	1,025	2,919
Cost of inventories sold, including	608,286	614,201
– Allowance for inventories/(Reversal of allowance for inventories)	655	(152)

8. DIVIDENDS

The Board of Directors of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2022 (for the six months ended 30 June 2021: HK1.5 cents per ordinary share).

At a meeting held on 29 March 2022, the Board of Directors of the Company recommended a final dividend of HK5.0 cents per ordinary share for the year ended 31 December 2021. The final dividend amounted to approximately RMB53,502,000 (for the six months ended 30 June 2021: RMB20,829,000) has been recognised as a liability at the end of the reporting period in which the dividend was approved by the Company’s shareholders.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	33,658	102,081

Six months ended 30 June	
2022	2021
(unaudited)	(unaudited)
'000	'000

Number of shares

Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,252,350	1,252,350
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No diluted earnings per share has been presented as there were no potential dilutive shares outstanding for the six months ended 30 June 2022 and 2021.

10. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2022	2021
	(unaudited)	(audited)
	RMB'000	RMB'000
Trade receivables	12,075	12,862
Advance payments to suppliers	27,046	29,428
Prepayments and other receivables	2,033	2,283
Other tax recoverables	6,026	2,925
	47,180	47,498

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

	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
0 – 30 days	9,652	9,866
31 – 90 days	1,753	2,033
91 – 180 days	228	160
181 – 365 days	42	220
Over 365 days	400	583
	12,075	12,862

11. TRADE AND OTHER PAYABLES

	30 June 2022 (unaudited) RMB'000	31 December 2021 (audited) RMB'000
Trade payables	14,863	22,436
Other payables	6,948	6,808
Other tax payables	8,829	28,224
Accrued salaries and wages	14,298	19,774
Other accrued charges	136,787	135,003
Payables for acquisition of property, plant and equipment	16,941	3,209
Dividend payable	53,502	–
Deposit received from disposal of property, plant and equipment	500	–
	252,668	215,454

The following is an analysis of trade payables by age, based on the invoice date which approximates the respective dates when the goods are delivered and the titles have passed to the Group:

	30 June	31 December
	2022	2021
	(unaudited)	(audited)
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 30 days	4,232	14,950
31 – 90 days	2,317	80
91 – 180 days	–	6,149
181 – 365 days	7,027	–
Over 365 days	1,287	1,257
	<hr/> 14,863 <hr/>	<hr/> 22,436 <hr/>

MARKET OVERVIEW

The roll-out of vaccines around the world and the relaxation of control measures to contain the Covid-19 pandemic (the “**Pandemic**”) in most countries provided a good start for 2022 relative to the first half of 2021. However, the outbreak of military conflict between Russia and Ukraine (“**Russia Ukraine Conflict**”) in February has introduced a major uncertainty in the global economy. The GDP of the United States (the “**US**”) has recorded a decrease of around 1.6% and 0.9% for the first and second quarters respectively. The European Union (the “**EU**”) has recorded an increase in its GDP of around 5.5% for the first quarter and an increase of around 4.0% for the second quarter. The GDP of the People’s Republic of China (the “**PRC**”) has recorded an increase of around 4.8% and 0.4% for the first and second quarters respectively.

The recovery of the global economy has stimulated a rise in the demand of the international crude oil market. The international crude oil price increased from around US\$75 per barrel at the end of 2021 to over US\$120 per barrel in March following the outbreak of the Russia Ukraine Conflict. It then fluctuated between US\$100 and US\$120 per barrel for most of the time between March and June. The upward moving crude oil price has pushed up the prices of oil-related downstream products, including raw materials for polyester yarn products. However, the growth momentum of the PRC economy has slowed down in the first half of 2022. The outbreak of a new wave of Pandemic in Shanghai and its surrounding area around April and the associated Pandemic control measures have further adversely affected China’s economy. Domestic consumption in the PRC has been affected and different industries, including the textile industries have been affected. Due to unfavourable market conditions, the increase in the selling prices of the yarn products of the Group has not been able to catch up with that of the increase in the cost of production.

International cotton prices also benefited from the recovery of the global economy. The international prices have followed an upward trend and have risen from around US110 cents per pound at the end of 2021 to over US140 cents per pound in April; the prices then hovered around US140 cents per pound between April until the end of June. The prices dropped sharply from US140 cents per pound to below US100 cents per pound at the end of June following the interest rate hike by the US Federal Reserve of 50 basis points and 75 basis points in May and June, respectively. The tightening of monetary policy by the US Federal Reserve to combat inflation triggered the fear for global recession and significant drop in commodities prices. The domestic cotton prices in the PRC have been trading at a similar pattern with that of international cotton. They have been fluctuating between RMB20,000 per tonne and RMB22,000 per tonne from the beginning of 2022 until the end of June, when it fell sharply to below RMB18,000 per tonne. There was no change in the PRC government policies in relation to collection of cotton reserve, direct subsidy to cotton farmers and the orderly auction of the cotton reserve. Accordingly, the domestic cotton prices in the PRC have not been affected by the continuing policies.

As most economies including the US, the EU and most Asian countries lifted their quarantine restrictions in 2022, daily lives and economic activities have begun to return to normal. However, both the US and the EU have been experiencing high inflation due to supply chain bottlenecks, high energy and food prices, surging consumer demand and higher wages. The Russia Ukraine Conflict has exacerbated inflation by further pushing up energy and food prices. In response to runaway inflation, the US Federal Reserve tightened the monetary policy and raised interest rates. Since the beginning of 2022, it raised its benchmark overnight borrowing rate by 25, 50, 75 and 75 basis points in March, May, June and July, respectively. The rapid hiking of US interest rate has triggered the fear for recession and led to a general fall in commodities prices. The tightening of monetary policy by the US has also created a strong dollar. A strong dollar normally draws capital into the US at the expense of capital outflow from other economies, especially less well-developed economies. A strong dollar will create import inflation and will increase the debt burden in many developing economies as they usually carry substantial amount of foreign debts, typically dominated in US dollar. Economic setback in developing economies will drag on the recovery of the global economies.

The PRC has been very successful in containing the Pandemic and enjoyed a GDP growth rate of 8.1% in 2021 but the momentum of growth has slowed down in 2022. The outbreak of a new wave of Pandemic in Shanghai and its surrounding area around April and the associated Pandemic control measures have further adversely affected the economy. The Pandemic was quickly brought under control and the PRC government has introduced various policies measures to stimulate the economy. Despite the resilience of the PRC economy, the complicated external environment will introduce a lot of uncertainties and challenges for the rest of the year.

BUSINESS REVIEW

The sales volume of yarn products of the Group decreased by 14.7% from approximately 54,897 tonnes for the six months ended 30 June 2021 to approximately 46,800 tonnes for the six months ended 30 June 2022. The decrease in sales volume was mainly due to the unfavourable market conditions. The production volume of yarn products of the Group decreased by 7.7% from approximately 60,888 tonnes for the six months ended 30 June 2021 to approximately 56,201 tonnes for the six months ended 30 June 2022. The revenue of the yarn products of the Group decreased by 11.1% to approximately RMB651.8 million for the six months ended 30 June 2022 as compared to RMB733.4 million for the six months ended 30 June 2021. The gross profit and the profit attributable to the owners of the Company for the six months ended 30 June 2022 were approximately RMB88.9 million and approximately RMB33.7 million, respectively.

The PRC has been very successfully in containing the Pandemic in 2020 and 2021; the manufacturing activities in the PRC have not been seriously affected. The manufacturing sectors in the PRC have benefited from flow of orders from other South East Asian countries as their manufacturing sectors were affected by the Pandemic during that period. However, with the lifting of quarantine restrictions, the economic activities of most countries have returned to normal. The manufacturing enterprises of South East Asian countries have resumed activities and engaged in competitions with their counterparts in the PRC.

The momentum of economic growth in the PRC has slowed down in the first half of 2022. The outbreak of a new wave of Pandemic in Shanghai and its surrounding area around April and the associated Pandemic control measures have further adversely affected the economy. In the US, the massive interest rate hike by the Federal Reserve in the second quarter triggered the fear for global recession and affected business confidence.

The Uyghur Forced Labor Prevention Act (the “UFLPA”) was signed into law of the US by the Biden administration in December 2021 and came into effect in June 2022. It establishes a rebuttable presumption that the importation of any goods manufactured wholly or in part in the Xinjiang Uyghur Autonomous Region of the PRC is prohibited from entry into the US. Under the UFLPA, the onus of proof that import shipment is not associated with forced labor in Xinjiang rests with the importer. The UFLPA has serious implications for textile exporters in the PRC as Xinjiang region produces over 80% of the cotton in the PRC in 2020 and Xinjiang cotton has been widely used in textile products in the PRC. The UFLPA greatly increases the cost of supply chain tracing compliance for PRC textile exporters and put them in a disadvantage position. Importers in the US are very likely to switch orders from the PRC to other Southeast Asian countries to avoid the risk of shipment detention or forfeiture under the UFLPA by the US Customs and Border Protection and the cost of compliance with supply chain tracing. The implementation of the UFLPA is expected to have a serious detrimental effect on the PRC textile export business to the US. The above factors have contributed to an unfavourable textile market in the PRC. Although the Group did not directly export its products to the US, it is indirectly affected by the impact of UFLPA on the textile market in the PRC.

As announced by the Company in July 2021, the Group has begun the construction a highly automated workshop with a capacity of 50,000 spindles (“the **New Workshop**”) in the third quarter of 2021. The construction of the New Workshop and the installation of the production line have been substantially completed, testing of the production equipment is expected to commence in the third quarter of 2022. As the new production line is equipped with the latest technology, it has a high degree of automation which will achieve savings in labour cost and increase the production efficiency of the Group. Upon the completion and full deployment of the New Workshop, certain older production lines of the Group could be released for revamp. A higher level of automation will result in labour cost saving which increases the competitive advantage of the Group.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") was engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. The sales volume of PSF decreased by 5.7% from approximately 13,948 tonnes for the six months ended 30 June 2021 to approximately 13,146 tonnes for the six months ended 30 June 2022. The production volume of PSF decreased by 25.8% from approximately 17,036 tonnes for the six months ended 30 June 2021 to approximately 12,633 tonnes for the six months ended 30 June 2022.

Xinyuan was invested with the intention to capitalize on the trend of using environment friendly yarns products in the textile industry and to support the Group in the upstream operations. The Group expected the use of environmentally friendly yarns would become popular as some international apparel brands have begun mandating the use of environmentally friendly raw materials for their products. Accordingly, the production line of Xinyuan was designed to utilize recycled plastic chips as one of its raw materials and the related products are considered environmentally friendly. However, since the PRC government restricted the import of overseas waste in the end of 2017, the supply of recycled plastic chips has been very tight and the prices have gone up. This has led to the narrowing of price disparity between PSF manufactured from recycled raw materials and PSF manufactured directly from petroleum by-products like polyethylene terephthalate ("**PET**") chips. In the meantime, the mandating of usage of environmentally friendly raw materials in the textile industry has not progressed as expected. PSF manufactured from recycled raw materials has come under intense competition pressure and Xinyuan has been operating at a loss and dependent on the financial support from the Group.

In order to alleviate the difficulty in procuring recycled plastic chips, Xinyuan has modified the production line in 2018 so that it could utilise PET chips as raw materials as well. With the improvement in the textile market as a whole, the performance of Xinyuan has improved in 2020 and 2021. However, the market conditions of textile industry turned unfavourable in 2022 and the segment profit of Xinyuan decreased by approximately 95.9% from RMB7.4 million for the six months ended 30 June 2021 to RMB0.3 million for the six months ended 30 June 2022. To improve the performance, further investment would be required for modification of the production line to switch to 100% PET chips feeding and increasing the production capacity so that it could achieve certain economy of scale. Under the current market conditions, the management considers it would be too risky to further invest in Xinyuan. As the Group is cautious about the market in the short to medium term, it decided to cease the operation of Xinyuan on 9 July 2022 in order to preserve financial resources and focus on its core business. The Directors believe that the cessation will have no material adverse impact on the operation of the Group. Xinyuan entered into an agreement on 27 August 2022 to dispose of most of the production equipment relating to the staple fibres segment, with a net carrying amount of approximately RMB8.6 million, at a cash consideration of RMB10 million and therefore there would be a gain on the disposal of approximately RMB1.4 million. Deposits of RMB5.5 million have been received in respect of the agreement as at the date of this announcement. The Group considers an orderly realization of its assets will extract the best value out of Xinyuan amid the unfavourable market conditions faced by the Group.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2022 was approximately RMB697.2 million, representing a decrease of approximately RMB70.7 million, or 9.2%, as compared to the corresponding period last year. The analysis of the sales of the Group's products is as below:

	Six months ended 30 June 2022		Six months ended 30 June 2021	
	RMB'000		RMB'000	
Polyester yarns	217,954	31.3%	238,864	31.1%
Polyester-cotton and viscose-cotton blended yarns	267,989	38.4%	356,278	46.3%
Cotton yarns	–	–	496	0.1%
Viscose and stretchable core viscose yarns	4,632	0.7%	2,363	0.3%
Grey and deep grey mélange yarns	158,998	22.8%	135,111	17.6%
Polyester staple fibres	45,381	6.5%	34,478	4.5%
Others	2,265	0.3%	317	0.1%
	697,219	100.0%	767,907	100.0%

The decrease in the revenue of the Group for the six months ended 30 June 2022 was mainly attributable to the decrease in sales volume of the yarn products from approximately 54,897 tonnes for the six months ended 30 June 2021 to approximately 46,800 tonnes for the six months ended 30 June 2022. The decrease in sales volume was mainly due to poor market conditions. The average selling price of yarn products of the Group slightly increased 4.3% from approximately RMB13,360 per tonne for the six months ended 30 June 2021 to approximately RMB13,928 per tonne for the six months ended 30 June 2022.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB153.7 million for the six months ended 30 June 2021 to approximately RMB88.9 million for the six months ended 30 June 2022. The gross profit margin of the Group decreased from approximately 20.0% for the six months ended 30 June 2021 to approximately 12.8% for the six months ended 30 June 2022. The decrease in gross profit was mainly due to the decrease in sales volume and increase in cost of production of the yarn products. The increase in cost of production was mainly driven by higher cost of materials. One of the major basic raw materials of the yarn products of the Group is PSF, which is a downstream product of crude oil. International crude oil prices have been fluctuating upward since 2022 and the prices of downstream products of crude oil, including PSF, have been driven up accordingly. However, due to unfavourable market conditions, the increase in selling prices of the yarn products of the Group has not been able to catch up with that of the increase in cost of production.

Other Income

Other income of the Group decreased from approximately RMB21.0 million for the six months ended 30 June 2021 to approximately RMB13.9 million for the six months ended 30 June 2022, representing a decrease of approximately RMB7.0 million or 33.5%. The decrease in other income was mainly due to decrease in government grants.

Distribution and Selling Expenses

Distribution and selling expenses of the Group remained almost unchanged at approximately RMB12.3 million for the six months ended 30 June 2022 as compared to approximately RMB12.2 million for the six months ended 30 June 2021. Despite the sales volume of yarn products decreased by approximately 14.7%, the effect of reduction in sales volume was offset by increase in freight rates as a result of higher oil and gas prices. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.8% for the six months ended 30 June 2022 (six months ended 30 June 2021: 1.6%).

Administrative Expenses

Administrative expenses of the Group decreased from approximately RMB29.1 million for the six months ended 30 June 2021 to approximately RMB26.0 million for the six months ended 30 June 2022, representing a decrease of approximately RMB3.0 million or 10.5%. The decrease in administrative expenses was mainly due to the decrease in contribution to disabled persons' employment security fund. Administrative expenses as a percentage of revenue of the Group was approximately 3.7% for the six months ended 30 June 2022 (six months ended 30 June 2021: 3.8%).

Finance Costs

Finance costs of the Group increased from approximately RMB12.1 million for the six months ended 30 June 2021 to approximately RMB12.8 million for the six months ended 30 June 2022, representing an increase of 6.6% or approximately RMB0.8 million. The increase in the Group's finance costs was mainly due to increase in bank and other borrowings.

Income Tax Expense

The Group's effective income tax rate for the six months ended 30 June 2022 was approximately 33.8% as compared to 14.1% for the corresponding period in 2021. The increase in effective income tax rate was mainly due to deferred tax assets of approximately RMB5.4 million as at 31 December 2021 which was fully charged to profit and loss during the current period because it is not expected to be utilised in the near term as the directors decided to cease the production of PSF by the Group's subsidiary, Xinyuan on 9 July 2022. Details please refer to "Business Review" section.

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 2022 was approximately RMB33.7 million, representing a decrease of approximately RMB68.4 million, or 67.0% as compared to that for the six months ended 30 June 2021. The net profit margin of the Group for the six months ended 30 June 2022 was 4.8% representing a decrease of 8.5 percentage points as compared with 13.3% for the six months ended 30 June 2021. The decrease in the Group's net profit margin was mainly due to the decrease in gross profit.

Earnings per Share

The basic earnings per share of the Company for the six months ended 30 June 2022 was approximately RMB2.69 cents as compared with approximately RMB8.15 cents basic earnings per share for the six months ended 30 June 2021. The decrease in earnings per share of the Company was due to decrease in the net profit for the six months ended 30 June 2022.

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 2022, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB208.6 million (31 December 2021: RMB283.0 million), pledged bank deposits of approximately RMB109.4 million (31 December 2021: RMB60.2 million) at 30 June 2022. The Group's cash and bank balances were mainly held in RMB.

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB. At 30 June 2022, the Group's interest-bearing borrowings amounted to approximately RMB595.9 million (31 December 2021: RMB553.2 million), RMB524.5 million (88.0%) of which (31 December 2021: RMB503.8 million (91.1%)) was repayable within one year or on demand. The Group's banking facilities were secured by its right-of-use assets, properties, plant and equipment and pledged bank deposits with a carrying value of approximately RMB543.7 million in aggregate (31 December 2021: RMB511.2 million).

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank and other borrowings, lease liabilities and bills payable to total assets, was approximately 37.8% at 30 June 2022 (31 December 2021: 35.5%). Net current liabilities and net assets at 30 June 2022 was approximately RMB165.9 million (31 December 2021: RMB109.6 million) and RMB761.4 million (31 December 2021: RMB781.2 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, pledged bank deposits, other receivables, bank and other borrowings, lease liabilities and other payables, which mainly expose the Group to risks in Hong Kong Dollar and United States Dollar. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 30 June 2022 were approximately RMB5.0 million (31 December 2021: RMB2.4 million) and RMB71.0 million (31 December 2021: RMB20.4 million), respectively. The Group had not used any financial instrument for hedging purposes during the six months ended 30 June 2022.

Contingent Liabilities

As at 30 June 2022, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 30 June 2022, the Group had a total of 2,932 employees (31 December 2021: 2,925). Remuneration for employees, including the Directors, is determined in accordance with performance, professional experiences and the prevailing market practices. The Group's management reviews the Group's employee remuneration policy and arrangement on a regular basis. Apart from pension, discretionary bonus will also be granted to certain employees as awards in accordance with individual performance. The Company had adopted a share option scheme on 25 June 2021, 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 2022, the Group did not have any significant investments or acquisitions or disposal of subsidiaries.

PROSPECTS

The roll-out of vaccines around the world and the relaxation of control measures to contain the Pandemic in most countries provided a good start for 2022. However, the outbreak of the Russia Ukraine Conflict in February has introduced a major uncertainty in the global economy. As most economies including the US, the EU and most Asian countries lifted their quarantine restrictions in 2022, daily lives and economic activities have begun to return to normal. However, both the US and the EU have been experiencing high inflation due to supply chain bottlenecks, high energy and food prices, surging consumer demand and higher wages. The Russia Ukraine Conflict has exacerbated inflation by further pushing up the energy and food prices. In response to runaway inflation, the US Federal Reserve tightened the monetary policy and raised interest rates. The rapid hiking of US interest rates has triggered the fear for recession and led to a general fall in commodities prices. The tightening of monetary policies in the US has created a strong dollar and imposed economic hardship on most developing economies.

The momentum of economic growth in the PRC has slowed down in the first half of 2022. The outbreak of a new wave of Pandemic in Shanghai and its surrounding area around April and the associated Pandemic control measures have further adversely affected the economy. In the US, the massive interest rate hike by the Federal Reserve in the second quarter triggered the fear for global recession and affected business confidence. As other Southeast Asian countries reopen their economies and resumed manufacturing activities, competition for orders has come back. The coming into effect of the UFCLA is expected to have a serious detrimental effect on the PRC textile export business to the US. The above factors have contributed to an unfavourable textile market in the PRC.

The Group considers the future of the textile market is challenging. Upon the completion and full deployment of the New Workshop, certain older production lines of the Group could be released for revamp. A higher level of automation will result in labour cost saving which increases the competitive advantage of the Group. As the Group is cautious about the future of the market, it decided to cease the operation of Xinyuan in July 2022 in order to preserve financial resources of the Group and focus on the core business, and is divesting its equipment in an orderly manner. The Group will continue to closely monitor the market conditions and take necessary measures to adjust its inventory level, production capacities, product mix and pricing strategy. The Group will continue to emphasize industrial safety and seek improvement in efficiency in the production process by means of automation. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group believes it is well positioned to take advantage of any turnaround in the textile industry.

EVENTS AFTER THE REPORTING PERIOD

After reviewing the staple fibres segment's business environment and its operation performance, on 9 July 2022, the Group decided to cease the production of PSF in Xinyuan. Up to the date of this announcement, the Group had recognised termination benefits of approximately RMB0.4 million.

Xinyuan entered into an agreement on 27 August 2022 to dispose of most of the production equipment relating to the staple fibres segment, with a net carrying amount of approximately RMB8.6 million, at a cash consideration of RMB10 million and therefore there would be a gain on the disposal of approximately RMB1.4 million. Deposits of RMB5.5 million have been received in respect of the agreement as at the date of this announcement. The Directors believe that the cessation will have no material adverse impact on the operation of the Group.

DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2022.

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 2022.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2022, the Company had complied with the code provisions of the existing Corporate Governance Code (the “**CG Code**”) and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

In respect of code provision D.2.5 of Part 2 the CG Code, the Company has not set up an internal audit (“**IA**”) function. Having considered the size and complexity of the operations of the Group and the potential cost involved in setting up an IA function, the Company considers the existing organisation structure and the close supervision of the executive management could provide sufficient internal control and risk management for the Group. The Audit Committee under the Board will review the effectiveness of the internal control and risk management of the Group. The Board will conduct a review for the need of an IA function on an annual basis.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct governing the Directors’ securities transactions. The Company confirms that, having made specific enquiry of all the Directors, each of them has complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2022.

AUDIT COMMITTEE

The audit committee of the Board has reviewed together with the management the accounting principles and policies adopted by the Group and reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2022.

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 2022 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the above websites in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the Group’s management and staff members for their dedication and hard work, our customers for their confidence and support for our products, our shareholders for their trust and support and various government bodies for their support.

By order of the Board
China Weaving Materials Holdings Limited
Zheng Hong
Chairman

The PRC, 31 August 2022

As at the date of this announcement, the Board comprises, Mr. Zheng Yongxiang as the executive Director; Mr. Zheng Hong as the non-executive Director; and Ms. Zhang Baixiang, Mr. Xu Yiliang and Mr. Li Guoxing as the independent non-executive Directors.