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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 YEAR ENDED 31 DECEMBER 2020

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 2020 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	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	4	1,421,077	1,796,390
Cost of sales		(1,277,914)	(1,680,266)
Gross profit		143,163	116,124
Other income	5	29,215	28,641
Other gains and losses		3,489	260
Distribution and selling expenses		(26,543)	(28,354)
Administrative expenses		(49,217)	(55,645)
Reversal of impairment loss on property, plant and equipment/(Impairment loss on property, plant and equipment)		5,158	(44,120)
Reversal of impairment loss on right-of-use assets/ (Impairment loss on right-of-use assets)		134	(426)
Profit from operations		105,399	16,480
Finance costs	6	(29,387)	(32,690)
Profit/(Loss) before tax		76,012	(16,210)
Income tax expense	7	(13,208)	(4,100)
Profit/(Loss) and total comprehensive income for the year	8	62,804	(20,310)
Profit/(Loss) and total comprehensive income for the year attributable to:			
Owners of the Company		62,750	(1,405)
Non-controlling interests		54	(18,905)
		62,804	(20,310)
Earnings/(Loss) per share	10		
– Basic		RMB5.01 cents	(RMB0.11 cents)
– Diluted		N/A	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		911,698	951,945
Right-of-use assets		74,906	80,668
Deposits on acquisition of property, plant and equipment		11	101
Goodwill		20,617	20,617
		<u>1,007,232</u>	<u>1,053,331</u>
Current assets			
Inventories		182,665	205,787
Trade and other receivables	11	37,505	47,852
Bills receivable		5,570	10,217
Pledged bank deposits		90,976	33,807
Restricted bank deposit		–	500
Cash and bank balances		184,606	135,585
		<u>501,322</u>	<u>433,748</u>
Current liabilities			
Trade and other payables	12	213,820	285,069
Contract liabilities		16,821	16,920
Bills payable		83,000	81,146
Deferred income		264	227
Lease liabilities		16,512	21,605
Bank and other borrowings		455,899	370,591
Entrusted loan payable		–	50,000
Current tax liabilities		13,783	7,646
		<u>800,099</u>	<u>833,204</u>
Net current liabilities		<u>(298,777)</u>	<u>(399,456)</u>
Total assets less current liabilities		<u>708,455</u>	<u>653,875</u>

	At 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Deferred income	6,830	7,256
Lease liabilities	1,046	2,652
Bank and other borrowings	35,476	44,576
Deferred tax liabilities	35,868	33,203
	<u>79,220</u>	<u>87,687</u>
Net assets	<u>629,235</u>	<u>566,188</u>
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	101,989	101,989
Reserves	529,913	466,920
	<u>631,902</u>	<u>568,909</u>
Non-controlling interests	<u>(2,667)</u>	<u>(2,721)</u>
Total equity	<u>629,235</u>	<u>566,188</u>

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 (“IAS”); 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 for the current accounting period of the Group. Note 2 provides information of these developments which are relevant to the Group’s operations. The application of these developments did not have material impact on the Group.

As of 31 December 2020, the Group’s current liabilities exceeded its current assets by approximately RMB298,777,000. 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. The directors have reviewed the Group’s cash flow projections in which the level of the demand of the Group’s products and the potential implications of COVID-19 have been considered. The projection covers a period of 12 months from 31 December 2020. The directors have a reasonable expectation that, after taking into account the following plans and measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months:

- (a) The Group can successfully obtain its bankers’ approval for rollover of its short term bank borrowings. Up to the date of the consolidated financial statements were authorised for issue, certain bankers have agreed to renew the Group’s bank borrowings amounting to approximately RMB93,000,000 currently included in current liabilities at 31 December 2020.
- (b) 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.
- (c) In the light of the COVID-19 pandemic, the Group is closely monitoring the latest development 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 plans and measures, the directors are of the opinion that the Group should be able to operate within the level of its current banking facilities and will have sufficient working capital to meet its financial obligations as and when they fall due within the next 12 months. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Notwithstanding the above, significant uncertainties exist. The current economic conditions continue to create uncertainty particularly over the level of demand for the Group's products and the availability of bank finance for the foreseeable future.

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 Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
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Amendments to IFRS 3	Definition of a Business
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The application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current year had no material impact on the Group's financial position and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

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

The Group has not applied any new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2020. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 3 Reference to the Conceptual Framework	1 January 2022
Amendments to IFRS 16 COVID-19 – Related Rent Concessions	1 June 2020
Amendments to IAS 1 Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 1 Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 8 Definition of Accounting Estimates	1 January 2023
Amendments to IAS 16 Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018 – 2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the PRC 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 year ended 31 December 2020, 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 <i>RMB'000</i>	Staple Fibres <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2020			
Revenue from external customers	1,297,882	123,195	1,421,077
Intersegment revenue	–	61,902	61,902
Interest income	1,067	84	1,151
Interest expense	(24,895)	(4,492)	(29,387)
Depreciation	(61,281)	(2,745)	(64,026)
Other material non-cash items:			
Reversal of impairment loss on property, plant and equipment	–	5,158	5,158
Reversal of impairment loss on right-of-use assets	–	134	134
Reversal of allowance for inventories	–	2,110	2,110
Inventories damaged by rainstorm	(495)	–	(495)
Profit of reportable segments	67,119	143	67,262

	Yarns <i>RMB'000</i>	Staple Fibres <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2019			
Revenue from external customers	1,687,244	109,146	1,796,390
Intersegment revenue	–	37,495	37,495
Interest income	1,381	44	1,425
Interest expense	(28,437)	(4,252)	(32,689)
Depreciation	(61,355)	(6,681)	(68,036)
Other material non-cash items:			
Impairment loss on property, plant and equipment	–	(44,120)	(44,120)
Impairment loss on right-of-use assets	–	(426)	(426)
Allowances for inventories	–	(2,372)	(2,372)
Inventories written-off	–	(830)	(830)
Profit/(Loss) of reportable segments	<u>50,196</u>	<u>(71,920)</u>	<u>(21,724)</u>

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Total revenue of reportable segments	1,482,979	1,833,885
Elimination of intersegment revenue	<u>(61,902)</u>	<u>(37,495)</u>
Group's revenue	<u>1,421,077</u>	<u>1,796,390</u>
Profit or loss		
Total profit/(loss) of reportable segments	67,262	(21,724)
Elimination of intersegment (gains)/losses	(228)	120
Adjusted for income in relation to government grants	10,705	8,507
Unallocated expense, net:		
Other income, gains and losses	673	(820)
Administrative and other expenses	(2,400)	(2,293)
Income tax expense	<u>(13,208)</u>	<u>(4,100)</u>
Group's profit/(loss) for the year	<u>62,804</u>	<u>(20,310)</u>

Geographical information

Over 99% (2019: 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% (2019: 99%) 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 2020 and 2019.

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 in time.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the year is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
Sales of yarns	1,297,882	1,687,244
Sales of staple fibres	<u>123,195</u>	<u>109,146</u>
	<u>1,421,077</u>	<u>1,796,390</u>

5. OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income	1,173	1,433
Government grants	10,705	8,507
Income from scrap sales	16,278	17,658
Rental income	864	854
Others	<u>195</u>	<u>189</u>
	<u>29,215</u>	<u>28,641</u>

6. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on bank and other borrowings	26,194	27,389
Interest on entrusted loans	2,525	4,332
Interest on lease liabilities	668	969
	<u>29,387</u>	<u>32,690</u>

7. INCOME TAX EXPENSE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
PRC Corporate Income Tax (“CIT”)		
Provision for the year	10,946	9,942
Over-provision in prior year	(403)	(1,661)
	<u>10,543</u>	<u>8,281</u>
Deferred tax		
Origination and reversal of temporary differences	2,665	5,080
Impact of change in tax rate	–	(9,261)
	<u>2,665</u>	<u>(4,181)</u>
Total	<u>13,208</u>	<u>4,100</u>

No provision for Hong Kong Profits Tax for the years ended 31 December 2020 and 2019 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 CIT 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 CIT rate for Jiangxi Jinyuan is a reduced tax rate of 15% for the years ended 31 December 2020 and 2019.

Huachun, the Company’s subsidiary, has been recognised as a state-encouraged high-new technology enterprise since 2019. As such, Huachun is entitled to a preferential tax rate of 15% for the years ended 31 December 2020 and 2019.

Xinyuan, the Company's subsidiary, is subject to the CIT tax rate at 25%.

The Group is subject to PRC withholding tax of 7% on the gross interest income from its PRC subsidiary to its non-PRC resident subsidiary.

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

8. PROFIT/(LOSS) FOR THE YEAR

The Group's profit/(loss) for the year is stated after charging/(crediting) the following:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(a) Employee benefits expense (excluding directors' emoluments)		
Salaries, bonuses and allowances	162,792	181,066
Retirement benefits scheme contributions (Note)	4,338	18,739
	<u>167,130</u>	<u>199,805</u>

Note: In response to the COVID-19 pandemic, the Group's subsidiaries established in the PRC were exempted by the relevant government authorities from 50% – 100% contributions to the central pension scheme to fund employees' retirement benefits for 5 months to 11 months during 2020.

(b) Other items		
Rental expense relating to short-term lease	–	88
Cost of inventories sold	1,277,914	1,680,266
(Reversal of allowance)/Allowance for inventories (included in cost of inventories sold)	(2,110)	2,372
Inventories written-off (included in cost of inventories sold)	–	830
Inventories damaged by rainstorm (included in other losses)	495	–
Depreciation on property, plant and equipment	58,753	63,498
Depreciation on right-of-use assets	5,896	5,069
	<u>1,279,948</u>	<u>1,689,043</u>

Cost of inventories sold includes employee benefits expense and depreciation of approximately RMB153,908,000 (2019: RMB183,738,000) and RMB54,548,000 (2019: RMB58,046,000) respectively, which are included in the amounts disclosed separately above.

9. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
2019 interim dividend of HK1.5 cents per ordinary share	–	16,823
	<u>–</u>	<u>16,823</u>

Subsequent to the end of the reporting period, final dividend in respect of the year ended 31 December 2020 of HK2.0 cents per ordinary share has been proposed by the directors and is subject to approval by the shareholders at the forthcoming general meeting.

10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit/(loss) for the year attributable to the owners of the Company and the weighted average number of ordinary shares of 1,252,350,000 (2019: 1,252,350,000) in issue during the year:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings/(Loss)		
Earnings/(Loss) for the purpose of calculating basic earnings/(loss) per share (profit/(loss) for the year attributable to owners of the Company)	<u>62,750</u>	<u>(1,405)</u>
Number of shares	2020	2019
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	<u>1,252,350</u>	<u>1,252,350</u>

No diluted earnings/(loss) per share has been presented as there were no potential dilutive shares outstanding for the years ended 31 December 2020 and 2019.

11. TRADE AND OTHER RECEIVABLES

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	10,003	26,234
Advance payments to suppliers	21,886	9,254
Prepayments and other receivables	1,380	1,742
Other tax recoverables	<u>4,236</u>	<u>10,622</u>
	<u>37,505</u>	<u>47,852</u>

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 30 – 90 days (2019: 15 – 90 days) depending on creditability of the customers.

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.

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, based on the invoice date which approximates the respective revenue recognition dates:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 – 30 days	8,538	21,389
31 – 90 days	630	2,650
91 – 180 days	4	1,272
181 – 365 days	–	919
Over 365 days	831	4
	<u>10,003</u>	<u>26,234</u>

12. TRADE AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	41,904	104,605
Other payables	7,387	22,202
Other tax payables	20,252	13,081
Accrued salaries and wages	18,530	18,893
Other accrued charges	124,928	119,208
Payables for acquisition of property, plant and equipment	819	6,802
Dividend payables	–	278
	<u>213,820</u>	<u>285,069</u>

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
0 – 30 days	27,356	36,356
31 – 90 days	10,256	55,883
91 – 180 days	3,432	11,324
181 – 365 days	–	1,042
Over 365 days	860	–
	<u>41,904</u>	<u>104,605</u>

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 2020:

“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 2020, 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 Standards 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 RMB298,777,000 as at 31 December 2020. 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 the first half of 2020, the COVID-19 pandemic (the “**Pandemic**”) had dealt a serious blow to the global economy, driving it into the most serious recession since the Second World War. There were signs of improvements in the second quarter after the deployment of monetary and relief measures by various governments. The GDP of the United States (the “**US**”) and the European Union (the “**EU**”) recorded a strong rebound of around 33.4% and 11.6% for the third quarter respectively. However, for the full year of 2020, the GDP of the US and the EU still suffered contraction of 3.5% and 6.2% respectively. The government of the People's Republic of China (the “**PRC**”) has been able to contain the Pandemic in the second quarter of 2020 and its economy rebounded accordingly. The PRC is the only major world economy that delivered the GDP growth rate of 2.3% for the full year of 2020.

The Pandemic has hugely affected the demand for crude oil as governments around the world imposed travel restrictions and various quarantine measures in order to contain the Pandemic. The international crude oil futures price dropped from around US\$60 per barrel at the end of 2019 to a negative value in April 2020. It rebounded to around US\$40 per barrel in June 2020 and then hovered at that level for most of the second half of 2020. The downward swing in crude oil price in the first half of 2020 has pushed down the prices of oil related downstream products, including raw materials for polyester yarn products. Due to lower raw material prices, selling prices of polyester related yarn products have been under pressure in the first half of 2020. Fortunately, the recovery of crude oil price in the second half of 2020 provided an upward push for the prices of oil related downstream products, including raw materials for polyester yarn products. Hence, the upward price trend of raw materials contributed to the increase in the selling prices of polyester related yarn products in the second half of 2020 accordingly.

The international cotton prices dropped from around US70 cents per pound at the end of 2019 to below US50 cents per pound at the end of the first quarter of 2020 and steadily climbed back to around US80 cents per pound at the end of 2020. The domestic cotton prices in the PRC have been trading at similar pattern with that of international cotton. The PRC domestic cotton prices dropped from around RMB13,500 per tonne at the end of 2019 to around RMB11,000 per tonne around the end of the first quarter of 2020 and steadily climbed back to around RMB14,500 per tonne at the end of 2020. The PRC government has maintained the policies of collection of cotton reserve, direct subsidy to cotton farmers and orderly auction of cotton reserves. These policies did not have any significant effect on the prices of PRC domestic cotton.

In the first quarter of 2020, the Pandemic prevention and control measures taken by the PRC government proved to be effective and the Pandemic has been under control in the second quarter and resulted in a rebound of the GDP. The recovery of the economy in the PRC has accelerated during the third and fourth quarters with growth rates of 4.9% and 6.5% respectively. Europe, the US and Latin America experienced major outbreak of the Pandemic around the end of the first quarter. The infection levels appeared to have peaked by the end of 2020 in those areas but still remained high in the first quarter of 2021. The development of multiple vaccines brings optimism about the future. However, there is clearly still some time before life can be back to normal. Recovery will therefore take longer in these economies, which will experience growth more likely later in 2021.

BUSINESS REVIEW

The sales volume of yarn products of the Group decreased by 9.8% from approximately 128,808 tonnes for the year ended 31 December 2019 to approximately 116,242 tonnes for the year ended 31 December 2020. The decrease in sales volume was mainly due to the adverse market conditions caused by the Pandemic in the first half of the year. The production volume of yarn products of the Group decreased by 7.7% from approximately 123,528 tonnes for the year ended 31 December 2019 to approximately 114,032 tonnes for the year ended 31 December 2020. The decrease in the production volume was mainly due to the delay in resumption of production after the Chinese New Year Holiday, as a result of the public health emergency and travel restriction measures undertaken by the PRC government in the first quarter of 2020 in order to contain the spread of the Pandemic. The revenue of the yarn products of the Group decreased by 23.1% to approximately RMB1,297.9 million for the year ended 31 December 2020 as compared to RMB1,687.2 million for the year ended 31 December 2019. The gross profit and the profit attributable to the owners of the Company for the year ended 31 December 2020 were approximately RMB143.2 million and approximately RMB62.8 million respectively. In response to the change in market conditions, the Group has adjusted its product mix and shifted its emphasis to mass market products which were generally geared to downstream customers engaged in the PRC domestic market.

The Group's subsidiary company, Jiangxi Xinyuan Special Fibres Company Limited ("**Xinyuan**") is engaged in the manufacture and trading of polyester staple fibres ("**PSF**") which are one of the basic raw materials of the Group for the production of polyester yarns. The sales volume of PSF increased by 62.9% from approximately 21,808 tonnes for the year ended 31 December 2019 to approximately 35,534 tonnes for the year ended 31 December 2020. The production volume of PSF decreased by 3.2% from approximately 29,358 tonnes for the year ended 31 December 2019 to approximately 28,413 tonnes for the year ended 31 December 2020. The results of Xinyuan improved significantly in 2020. The profit for the year ended 31 December 2020 of Xinyuan was approximately RMB0.5 million as compared to a loss of RMB71.8 million for the year ended 31 December 2019 which included impairment losses of approximately RMB44.5 million. The significant improvement was due to: (i) improvement in market conditions in the second half of 2020 as a result of rising prices of crude oil and related downstream products, including PSF; (ii) improvement in PSF quality by shifting of production materials from recycled plastic chips to chips manufactured directly from petroleum by-products; and (iii) reversal of impairment losses of approximately RMB5.3 million.

The Pandemic has dealt a very serious economic blow to the US and EU areas in the second quarter of 2020 and the major export markets for the PRC apparel industries were seriously hammered. On the other hand, the PRC has been able to contain the Pandemic in the second quarter and the economy rebounded and picked up growth momentum in the third and fourth quarters. The improvement in domestic market consumptions, including apparel consumption, in the PRC in the second half of 2020 was strong. The increased demand by the downstream consumers, a relative low level of inventory in the textile industry resulting from the Pandemic in the first half of the year and an upward price trend of yarn products driven by increases in raw materials prices have contributed to a booming market for yarn products in the second half of 2020. The demand for yarn products and prices of yarn products have been increasing in general in the second half of 2020, particularly in the fourth quarter.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 December 2020 was approximately RMB1,421.1 million, representing a decrease of approximately RMB375.3 million, or 20.9%, as compared to last year. The analysis of the sales of the Group's products is as below:

	Year ended 31 December 2020 <i>RMB'000</i>		Year ended 31 December 2019 <i>RMB'000</i>	
Polyester yarns	474,458	33.4%	618,745	34.4%
Polyester-cotton and viscose-cotton blended yarns	579,116	40.8%	718,561	40.0%
Grey and deep grey mélange yarns and grey mélange-cotton blended yarns	174,299	12.3%	165,754	9.2%
Viscose and stretchable core viscose yarns	48,615	3.4%	141,241	7.9%
Cotton yarns	21,179	1.4%	42,329	2.4%
Staple fibres	123,195	8.7%	109,146	6.1%
Others	215	0.0%	614	0.0%
	<u>1,421,077</u>	<u>100%</u>	<u>1,796,390</u>	<u>100%</u>

The decrease in the revenue of the Group for the year ended 31 December 2020 was mainly attributable to the decrease in the sales volume of yarns products from 128,808 tonnes for the year ended 31 December 2019 to 116,242 tonnes for the year ended 31 December 2020 and decrease in the average selling prices of yarns products. The average selling price of yarn products of the Group decreased 14.7% from approximately RMB13,089 per tonne for the year ended 31 December 2019 to approximately RMB11,165 per tonne for the year ended 31 December 2020. The decrease in average selling prices of yarn products was mainly due to the downward positive correlation between the selling prices of yarn products and the prices of raw materials. The average prices of raw materials were lower in 2020 than that in 2019.

Gross Profit and Gross Profit Margin

Gross profit of the Group increased from approximately RMB116.1 million for the year ended 31 December 2019 to approximately RMB143.2 million for the year ended 31 December 2020. The gross profit margin of the Group increased from approximately 6.5% for the year ended 31 December 2019 to approximately 10.1% for the year ended 31 December 2020. The decrease in the average cost of products per tonne was much higher than the decrease in average selling price of products per tonne. The domestic economy of the PRC rebounded in the second quarter and picked up its momentum in the third and fourth quarters of 2020. The improvement in the domestic consumption market, including apparel consumption, was strong in the second half of 2020. This has improved the market conditions for yarn products generally.

Other Income

Other income of the Group slightly increased from approximately RMB28.6 million for the year ended 31 December 2019 to approximately RMB29.2 million for the year ended 31 December 2020, representing an increase of approximately RMB0.6 million or 2.1%.

Other Gains and Losses

Other gains of the Group increased from approximately RMB0.3 million for the year ended 31 December 2019 to approximately RMB3.5 million for the year ended 31 December 2020, representing an increase of approximately RMB3.2 million or 10.7 times. The increase in other gains was mainly due to net foreign exchange gains.

Distribution and Selling Expenses

Distribution and selling expenses of the Group decreased from approximately RMB28.4 million for the year ended 31 December 2019 to approximately RMB26.5 million for the year ended 31 December 2020, representing a decrease of approximately RMB1.9 million or 6.7%. The decrease in distribution and selling expenses was mainly due to the decrease in sales volume. Distribution and selling expenses as a percentage of revenue of the Group was approximately 1.9% for the year ended 31 December 2020 (year ended 31 December 2019: 1.6%).

Administrative Expenses

Administrative expenses of the Group decreased from approximately RMB55.6 million for the year ended 31 December 2019 to approximately RMB49.2 million for the year ended 31 December 2020, representing a decrease of approximately RMB6.4 million or 11.5%. The decrease in administrative expenses was mainly due to the waiver of certain government taxes and levies as part of the relief measures to local business deployed by the local government in response to the Pandemic. Administrative expenses as a percentage of revenue of the Group was approximately 3.5% for the year ended 31 December 2020 (year ended 31 December 2019: 3.1%).

Finance Costs

Finance costs of the Group decreased from approximately RMB32.7 million for the year ended 31 December 2019 to approximately RMB29.4 million for the year ended 31 December 2020, representing a decrease of 10.1% or approximately RMB3.3 million. The decrease in the Group's finance costs was mainly due to lower interest rates as a result of the lowering of the loan prime rate in the PRC in the first half of 2020 and the full repayment of an entrusted loan in 2020.

Income Tax Expense

The Group's income tax expense for the year ended 31 December 2020 was approximately RMB13.2 million, as compared to an income tax expense of approximately RMB4.1 million for 2019. The Group's effective income tax rate for the year ended 31 December 2020 was approximately 17.4%.

Profit/(Loss) attributable to Owners of the Company and Net Profit/(Loss) Margin

Profit attributable to owners of the Company for the year ended 31 December 2020 was approximately RMB62.8 million as compared to a loss attributable to owners of the Company of approximately RMB1.4 million for the year ended 31 December 2019. The net profit margin of the Group for the year ended 31 December 2020 was approximately 4.4% as compared with a net loss margin of approximately 0.1% for the year ended 31 December 2019. The increase in profit attributable to owners of the Company was mainly due to the increase in gross profit and reversal of impairment losses of approximately RMB5.3 million. The loss attributable to owners of the Company for the year ended 31 December 2019 was mainly due to decrease in gross profit and impairment losses of approximately RMB44.5 million.

Earnings/(Loss) per Share

The basic earnings per share of the Company for the year ended 31 December 2020 was approximately RMB5.01 cents as compared with approximately RMB0.11 cents basic loss per share for the year ended 31 December 2019. The increase in earnings per share of the Company was due to the net profit for the year ended 31 December 2020.

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 2020, the Group generated net cash inflow from operating activities. The Group had cash and bank balances of approximately RMB184.6 million (31 December 2019: RMB135.6 million) and pledged bank deposits of approximately RMB91.0 million (31 December 2019: RMB33.8 million). At 31 December 2020, the Group's cash and bank balances were mainly held in Renminbi.

Capital Structure and Pledge of Assets

The Group's interest-bearing borrowings were mainly made in RMB, HK\$ and US\$. At 31 December 2020, the Group's interest-bearing borrowings amounted to approximately RMB508.9 million (31 December 2019: RMB489.4 million), of which approximately RMB472.4 million (92.8%) (31 December 2019: RMB442.2 million (90.4%)) was repayable within one year or on demand. The Group's banking facilities were secured by its properties, plant and equipment, right-of-use assets and pledged bank deposits with a carrying value of approximately RMB731.6 million in aggregate (31 December 2019: RMB699.1 million).

Gearing Ratio

The gearing ratio of the Group, which is equal to the total of bank borrowings, lease liabilities and bills payable to total assets, was approximately 39.2% at 31 December 2020 (31 December 2019: 38.4%). Net current liabilities and net assets at 31 December 2020 were approximately RMB298.8 million (31 December 2019: RMB399.5 million) and RMB629.2 million (31 December 2019: RMB566.2 million), respectively.

Foreign Exchange Exposure

The Group has certain exposure to foreign currency risk as some of its assets and liabilities are denominated in currencies other than the functional currencies of the Group entities, including HK\$ and US\$. The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at 31 December 2020 were approximately RMB6.8 million (31 December 2019: RMB5.3 million) and RMB42.8 million (31 December 2019: RMB48.0 million), respectively. The Group had not used any financial instrument for hedging purposes during the year ended 31 December 2020.

Contingent Liabilities

At 31 December 2020, the Group did not have any significant contingent liabilities.

Employees, Remuneration and Share Option Scheme

At 31 December 2020, the Group had a total of 3,046 employees (31 December 2019: 3,182). 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 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 2020, the Group did not have any significant investments or acquisitions or sales of subsidiaries.

PROSPECTS

Pandemic infection levels remain very high in Europe, the US and Latin America, and new variants of the virus have spread quickly in the first quarter of 2021. While the spike in Pandemic infection rates led to renewed lockdown measures in many places at the beginning of 2021, the development of multiple vaccines gives us hope that the world will return to some form of normality before long. As rolling out of the vaccination programs will take time, the global economy is unlikely to return to normal quickly. The export markets of the textile and apparel enterprises of the PRC would remain very difficult. Nevertheless, Asian countries suffered a much lower Pandemic inflection rate as compared with the western countries. The PRC government has been able to contain the Pandemic in the second quarter of 2020 and reopened the economy. Hence, recoveries in economies of Asian countries are likely to happen soon in 2021. The signing of the Regional Comprehensive Economic Partnership should further boost intra-regional activity across Asia, while the recent political agreement between the EU and the PRC on an investment deal should, once ratified, bolster the already significant two-way investment flows.

With the containment of the Pandemic in the second quarter of 2020 and the implementation of relief measures and policies to promote internal consumptions by the PRC government, the recovery of the economy in the PRC has accelerated during the third and fourth quarters with growth rates of 4.9% and 6.5% respectively. The domestic apparel market of the PRC has benefited from the recovery accordingly.

The recovery of crude oil price in the second half of 2020 provided an upward push for the prices of oil related downstream products, including raw materials for polyester yarn products. The international and domestic cotton prices also recovered in the second half of 2020. The upward price trend of raw materials benefited the selling prices of yarn products in the second half of 2020, particularly in the fourth quarter. The prices of crude oil and international cotton remained high in the first quarter of 2021. If the commodities prices remain steady at a high level, the correlation effect will benefit the textile and yarn product markets accordingly.

The rolling out of vaccination programs brought hope for containment of the Pandemic in 2021. However, the risk of new variant of the virus and the geopolitical uncertainty that prevailed during 2020 remain a threat to economic recovery. In response to the market conditions, the Group has adjusted its product mix and pricing strategy with a view to maximize sales and cash flow. The Group seized the booming market in the fourth quarter of 2020 and sold most of its inventories of finished goods. In the meantime, the Group has accumulated more inventories of raw materials due to a positive view on their prices. The Group will continue to closely monitor the market conditions and take necessary measures to adjust its 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. The Group will continue to aim at optimal production capacities while keeping an eye on the sales and inventory levels. Taking into account the benefits from the enlarged product portfolio and the economies of scale, the Group is confident about its long term 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.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of the Company (the “**Annual General Meeting**”) will be held on Friday, 25 June 2021. 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.

DIVIDEND

The Board has recommended the payment of a dividend of HK2.0 cents per share of the Company in respect of the year ended 31 December 2020 to the Shareholders (the “**Final Dividend**”). The Final Dividend will be declared and paid out of the share premium of the Company. Subject to Shareholders’ approval of the proposed Final Dividend at the Annual General Meeting to be held on Friday, 25 June 2021, the Final Dividend will be paid on or around Wednesday, 21 July 2021, to Shareholders whose names appear on the register of members of the Company on Wednesday, 7 July 2021.

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 Tuesday, 22 June 2021 to Friday, 25 June 2021 (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 Monday, 21 June 2021.

For the purpose of determining the Shareholders who are entitled to the proposed Final Dividend, which is subject to the approval of the Shareholders at the Annual General Meeting, the register of members of the Company will be closed from Monday, 5 July 2021 to Wednesday, 7 July 2021 (both days inclusive). During this period, no transfer of shares will be registered. In order to qualify for the Final Dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Friday, 2 July 2021.

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 2020.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the year ended 31 December 2020, 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 organisational 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 year ended 31 December 2020.

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 2020.

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 2020 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 annual 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 2020 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

The PRC, 30 March, 2021

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.