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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 2023

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 2023 together with the comparative figures for the corresponding period in 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	<i>Note</i>	2023 (unaudited) RMB’000	2022 (unaudited) RMB’000 (Restated)
CONTINUING OPERATIONS			
Revenue	4	455,663	651,838
Cost of sales		<u>(446,683)</u>	<u>(565,335)</u>
Gross profit		8,980	86,503
Other income	5	16,662	13,335
Other gains and losses		(502)	(929)
Distribution and selling expenses		(10,433)	(11,877)
Administrative expenses		(25,384)	(24,475)
Finance costs	6	<u>(11,027)</u>	<u>(11,146)</u>
(Loss)/Profit before tax from continuing operations		(21,704)	51,411
Income tax credit/(expense)	7	<u>12,087</u>	<u>(11,753)</u>
(Loss)/Profit for the period from continuing operations	8	<u>(9,617)</u>	<u>39,658</u>

	<i>Note</i>	2023 (unaudited) RMB'000	2022 (unaudited) RMB'000 (Restated)
DISCONTINUED OPERATION			
Loss for the period from a discontinued operation	9	<u>–</u>	<u>(6,000)</u>
(Loss)/Profit and total comprehensive (expense)/income for the period		<u>(9,617)</u>	<u>33,658</u>
(Loss)/Profit and total comprehensive (expense)/income for the period attributable to the owners of the Company arises from:			
Continuing operations		(9,617)	39,658
Discontinued operation		<u>–</u>	<u>(6,000)</u>
		<u>(9,617)</u>	<u>33,658</u>
(Loss)/Earnings per share	<i>11</i>		
From continuing and discontinued operations			
– Basic		<u>(RMB0.77) cents</u>	<u>RMB2.69 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>
From continuing operations			
– Basic		<u>(RMB0.77) cents</u>	<u>RMB3.17 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Non-current assets			
Property, plant and equipment		957,509	976,984
Right-of-use assets		41,900	46,037
Deposits on acquisition of property, plant and equipment		544	8,308
Goodwill		20,617	20,617
Deferred tax assets		1,596	1,157
		1,022,166	1,053,103
Current assets			
Inventories		230,977	132,891
Current tax assets		–	4,824
Trade and other receivables	12	31,276	16,736
Bills receivable		2,118	3,311
Pledged bank deposits		48,862	121,044
Cash and bank balances		172,677	263,398
		485,910	542,204
Current liabilities			
Trade and other payables	13	208,016	211,481
Contract liabilities		25,697	12,209
Bills payable		48,862	98,913
Deferred income		264	264
Lease liabilities		–	637
Bank and other borrowings		435,572	431,155
Current tax liabilities		–	1,485
		718,411	756,144
Net current liabilities		(232,501)	(213,940)
Total assets less current liabilities		789,665	839,163

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

	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Non-current liabilities		
Deferred income	6,170	6,302
Bank and other borrowings	50,111	83,373
Deferred tax liabilities	27,945	34,432
	<u>84,226</u>	<u>124,107</u>
NET ASSETS	<u>705,439</u>	<u>715,056</u>
Capital and reserves		
Equity attributable to owners of the Company		
Share capital	101,989	101,989
Reserves	603,450	613,067
	<u>705,439</u>	<u>715,056</u>
TOTAL EQUITY	<u>705,439</u>	<u>715,056</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

This unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard (“IAS”) 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 2022. 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 2022 and there have been no significant changes in the financial risk management policies for the six months ended 30 June 2023.

At 30 June 2023, the Group’s current liabilities exceeded its current assets by approximately RMB232,501,000. 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 RMB65,300,000 currently included in current liabilities at 30 June 2023.
 - (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) The Group is closely monitoring the latest developments and will continue to assess the impact of any change in government policy, global financial market, economy and business environment 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

Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences — e.g. leases.

Prior to the adoption of Amendments to IAS 12, the Group applied the initial recognition exemption under paragraphs 15 and 24 of IAS 12 for leasing transactions that give rise to equal and offsetting temporary differences, and therefore no deferred tax has been recognised for temporary differences relating to right-of-use assets and lease liabilities at initial recognition, and also over the lease terms under paragraph 22(c) of IAS 12.

The Group has applied the transitional provisions under paragraphs 98K and 98L of Amendments to IAS 12 to leasing transactions that occur on or after the beginning of the earliest comparative period presented and also, at the beginning of the earliest comparative period presented by:

- (i) Recognising a deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and a deferred tax liability for all deductible and taxable temporary differences associated with right-of-use assets and lease liabilities; and
- (ii) Recognising the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained profits (or other component of equity, as appropriate) at that date.

Based on the management’s assessment, there was immaterial impact on the unaudited condensed consolidated statement of financial position as at 1 January 2022, 31 December 2022 and 30 June 2023, because the deferred tax assets and the deferred tax liabilities recognised as a result of the adoption of Amendments to IAS 12 qualify for offset under paragraph 74 of IAS 12. There was also immaterial impact on the opening retained profits as at 1 January 2022 as a result of the change.

In addition to the adoption of the above amendments to standards, in the current period, the Group has adopted all other new and revised International Financial Reporting Standards issued by the IASB that are relevant to its operations and effective for its accounting period beginning on 1 January 2023. They do not have a material effect on the Group’s unaudited condensed consolidated financial information.

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing 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 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.

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, which discontinued in the prior year

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**”)), Treasure Resources Corporation Limited (“**Treasure Resources**”) and 江西鑫源特種纖維有限公司 (for identification purpose, Jiangxi Xinyuan Special Fibres Company Limited (“**Xinyuan**”)) (after restructuring since 1 October 2022) (for the six months ended 30 June 2022: the operations of Jiangxi Jinyuan, Huachun and Treasure Resources) represent the operating and reportable segment of the sales of yarns.

The operation of Xinyuan represented the operating and reportable segment of the sales of polyester staple fibres before 1 October 2022 and since then restructured to the operating and reportable segment of the sales of yarns as Xinyuan’s assets (including property, plant and equipment and right-of-use assets) were reallocated to support operations of Jiangxi Jinyuan.

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 (Continuing operations) (unaudited) <i>RMB'000</i>	Staple fibres (Discontinued operation) (unaudited) <i>RMB'000</i>	Total (unaudited) <i>RMB'000</i>
Six months ended 30 June 2023			
Revenue from external customers	455,663	–	455,663
Interest income	3,448	–	3,448
Interest expense	(11,027)	–	(11,027)
Depreciation	(37,513)	–	(37,513)
Loss of reportable segments	(26,474)	–	(26,474)

	Yarns (Continuing operations) (unaudited) <i>RMB'000</i>	Staple fibres/ (Discontinued operation) (unaudited) <i>RMB'000</i>	Total (unaudited) <i>RMB'000</i>
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/(loss) of reportable segments	52,552	(672)	51,880

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

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Continuing operations		
Profit or loss		
Segment's (loss)/profit from continuing operations	(26,474)	52,552
Adjusted for income in relation to government grants	5,710	269
Unallocated expenses, net:		
Other income, gains and losses	104	(347)
Administrative and other expenses	(1,044)	(1,063)
Income tax credit/(expense)	12,087	(11,753)
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Group's (loss)/profit for the period from continuing operations	(9,617)	39,658
Discontinued operation		
Profit or loss		
Segment's loss from a discontinued operation	-	(672)
Adjusted for income in relation to government grants	-	84
Income tax expense	-	(5,412)
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Group's loss for the period from a discontinued operation	-	(6,000)
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4. REVENUE

The principal activities of the Group are manufacturing and trading of yarn products (for the six months ended 30 June 2022: yarn and polyester staple fibres products). The Group derives revenue from transfer of goods at a point in time. The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales of yarns products (for the six months ended 30 June 2022: yarn and polyester staple fibres products) such that it does not disclose the information about its remaining performance obligations as the contracts have an original expected duration of one year or less.

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the six months ended 30 June 2023 is as follows:

	Six months ended 30 June	
	2023	2022
	(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, from continuing operations	455,663	651,838
– Sales of polyester staple fibres, from a discontinued operation	–	45,381
	<u>455,663</u>	<u>697,219</u>

5. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Continuing operations		
Interest income	3,448	2,031
Government grants	5,710	269
Income from scrap sales	6,893	10,463
Rental income	583	540
Others	28	32
	<u>16,662</u>	<u>13,335</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Continuing operations		
Interest on bank and other borrowings	11,014	11,116
Interest on lease liabilities	13	30
	<u>11,027</u>	<u>11,146</u>

7. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Continuing operations		
Current tax		
PRC Corporate Income Tax (“CIT”)		
Provision for the period	–	6,985
Over-provision in prior year	(5,161)	(516)
Deferred tax	(6,926)	5,284
	<u>(12,087)</u>	<u>11,753</u>

No provision for Hong Kong Profits Tax for the six months ended 30 June 2023 and 2022 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.

8. (LOSS)/PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS

The Group’s (loss)/profit for the period from continuing operations is stated after charging the following:

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
		(Restated)
Depreciation		
– Owned property, plant and equipment	36,439	30,780
– Right-of-use assets	1,102	932
Cost of inventories sold	446,683	565,335
	<u>446,683</u>	<u>565,335</u>

9. DISCONTINUED OPERATION

The consolidated results of Xinyuan for the period from 1 January 2022 to 30 June 2022 have been restated and presented as discontinued operation in this unaudited condensed consolidated financial information, and corresponding notes have been restated to disclose the discontinued operation separately from continuing operations.

	Six months ended
	30 June
	2022
	(unaudited)
	<i>RMB'000</i>
Discontinued operation	
Revenue	45,381
Cost of sales	(42,951)
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Gross profit	2,430
Other income	614
Other gains and losses	13
Distribution and selling expenses	(409)
Administrative expenses	(1,534)
Finance costs	(1,702)
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Loss before tax	(588)
Income tax expense	(5,412)
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Loss for the period from a discontinued operation attributable to owners of the Company	(6,000)
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Loss for the period from a discontinued operation includes the following:	
Cost of inventories sold	(42,951)
Allowance for inventories (included in cost of inventories sold)	(655)
Depreciation on property, plant and equipment	(1,605)
Depreciation on right-of-use assets	(94)
Net foreign exchange gains	13
Interest income	22
Amortisation of deferred income	57
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Cash flows from a discontinued operation:	
Net cash outflows from operating activities	(3,524)
Net cash outflows from investing activities	(79)
Net cash inflows from financing activities	27,777
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Net cash inflows	24,174
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10. 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 2023 (for the six months ended 30 June 2022: nil).

During the six months ended 30 June 2022, the final dividend amounted to approximately RMB53,502,000 was recognised in respect of the year ended 31 December 2021.

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the following:

	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	RMB'000	RMB'000
(Loss)/Earnings		
(Loss)/Earnings for the purpose of calculating basic (loss)/earnings per share ((loss)/profit for the period attributable to owners of the Company) arises from:		
– From continuing operations	(9,617)	39,658
– From a discontinued operation	–	(6,000)
	<u> </u>	<u> </u>
	Six months ended 30 June	
	2023	2022
	(unaudited)	(unaudited)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	<u>1,252,350</u>	<u>1,252,350</u>

No diluted earnings per share has been presented as there were no potential dilutive shares outstanding for the six months ended 30 June 2023 and 2022.

12. TRADE AND OTHER RECEIVABLES

	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Trade receivables	18,054	7,068
Advance payments to suppliers	10,755	8,172
Prepayments and other receivables	2,467	1,459
Other tax recoverables	–	37
	31,276	16,736

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

	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
0 – 30 days	14,473	6,640
31 – 90 days	3,370	69
181 – 365 days	–	57
Over 365 days	211	302
	18,054	7,068

13. TRADE AND OTHER PAYABLES

	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
Trade payables	13,237	14,312
Other payables	8,923	7,151
Other tax payables	10,447	22,121
Accrued salaries and wages	13,061	12,275
Other accrued charges	158,565	148,796
Payables for acquisition of property, plant and equipment	3,783	6,826
	<u>208,016</u>	<u>211,481</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:

	30 June 2023 (unaudited) RMB'000	31 December 2022 (audited) RMB'000
0 – 30 days	10,943	11,345
31 – 90 days	818	486
91 – 180 days	–	825
181 – 365 days	212	–
Over 365 days	1,264	1,656
	<u>13,237</u>	<u>14,312</u>

MARKET OVERVIEW

During the six months ended 30 June 2023, the global economy has faced a lot of challenges. The military conflict between Russia and Ukraine (“**Russia Ukraine Conflict**”) has not stopped, major developed economies continue to suffer from high inflation, successive interest rates hikes led to a sharp rise in interest rates. The above factors have suppressed global demand and consumption. The GDP of the United States (the “**US**”) has recorded an increase of around 2.0% and 2.4% for the first and second quarters respectively. The European Union (the “**EU**”) has recorded an increase of around 0.2% for the first quarter and zero growth for the second quarter. The GDP of the People’s Republic of China (the “**PRC**”) has recorded an increase of around 4.5% and 6.3% for the first and second quarters respectively.

The international crude oil price fluctuated between US\$70 and US\$80 per barrel for most of the time for the six months ended 30 June 2023. The average price of international crude oil for the six months ended 30 June 2023 was lower than that of 2022. A lower crude oil price has pushed down the prices of oil-related downstream products, including raw materials for polyester yarn products and the selling prices of polyester yarn products were affected accordingly. Due to unfavourable market conditions, the selling prices of the yarn products faced increased pressure and fell at faster rate than that of the raw materials.

The international cotton prices fluctuated between US80 cents and US90 cents per pound for most of the time for the six months ended 30 June 2023. The international cotton prices have followed a downward trend since the sharp fall from US150 cents per pound in the second quarter of 2022. The average prices of international cotton for the six months ended 30 June 2023 were lower than that of 2022. The weakness in international cotton prices was mainly due to a weak global economy and a high interest rate environment. The domestic cotton prices in the PRC have been fluctuating between RMB15,000 per tonne and RMB17,000 per tonne for the six months ended 30 June 2023.

The domestic cotton prices have been trending slightly upward since the beginning of 2023 due to the expectation of a tightened supply in the long and medium term. 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.

The PRC government has lifted all the Covid-19 pandemic (the “**Pandemic**”) control measures in January 2023, normal lives and economic activities have resumed. The domestic sales of the PRC’s textile industry showed a trend of gradual recovery. However, due to various unfavourable factors such as complicated international trade environment, restructuring of global supply chain and high domestic production cost, the textile industry was under pressure in the six months ended 30 June 2023. In terms of domestic sales, according to the statistics from the National Bureau of Statistics of China, the retail sales of commodities such as apparel, footwear, headwear, and knitted products by enterprises above the designated size for the six months ended 30 June 2023 amounted to approximately RMB683.4 billion, representing a period-on-period increase of approximately 12.8%. However, PRC’s export sales remained sluggish, the export of textile products and apparel for the six months ended 30 June 2023 was only approximately US\$142.7 billion, representing a period-on-period decrease of approximately 8.3%, according to the General Administration of Customs of the PRC.

BUSINESS REVIEW

The sales volume of yarn products of the Group decreased by 16.9% from approximately 46,800 tonnes for the six months ended 30 June 2022 to approximately 38,911 tonnes for the six months ended 30 June 2023. The decrease in sales volume was mainly due to the unfavourable market conditions. The production volume of yarn products of the Group decreased by 22.5% from approximately 56,201 tonnes for the six months ended 30 June 2022 to approximately 43,576 tonnes for the six months ended 30 June 2023. The revenue of the yarn products of the Group decreased by 30.1% to approximately RMB455.7 million for the six months ended 30 June 2023 as compared to RMB651.8 million for the six months ended 30 June 2022. The gross profit and the loss attributable to the owners of the Company for the six months ended 30 June 2023 were approximately RMB9.0 million and approximately RMB9.6 million, respectively.

Since the lifting of the Pandemic control measures in January 2023, the domestic sales of the PRC’s textile industry showed a trend of gradual recovery. However, the increase in domestic sales of textile products was partly contributed by the discount sales by retailers in order to reduce the level of inventories. The export market of textile products remains very difficult under the current global economic conditions. Although the costs of raw materials of yarn products were lower in the six months ended 30 June 2023 as compared with that of 2022, the selling prices of yarn products fell at a rate faster than that of the raw materials due to poor market conditions. In response to the market conditions, the Group has adjusted its product portfolio and production arrangements, focusing more on polyester and grey mélangé yarn products. The Group also increased its marketing effort by engaging more interactions with its customers. The Group also adopted an aggressive pricing strategy in order to achieve sufficient sales volume to maintain the economy of scale. The above factors have contributed to a poor gross margin for the six months ended 30 June 2023.

As announced by the Company in July 2021, the Group has begun the construction of 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 completed and commercial production has commenced 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. A higher level of automation will result in labour cost saving which increases the competitive advantage of the Group.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 June 2023 was approximately RMB455.7 million, representing a decrease of approximately RMB196.1 million, or 30.0%, 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 2023		Six months ended 30 June 2022	
	RMB’000		RMB’000	
			(Restated)	
Polyester yarns	181,612	39.8%	217,954	33.5%
Polyester-cotton and viscose-cotton blended yarns	142,941	31.4%	267,989	41.1%
Grey and deep grey mélange yarns and grey mélange-cotton blended yarns	129,261	28.4%	158,998	24.4%
Viscose and stretchable core viscose yarns	1,849	0.4%	4,632	0.7%
Others	–	–	2,265	0.3%
	<u>455,663</u>	<u>100.0%</u>	<u>651,838</u>	<u>100.0%</u>

The decrease in the revenue of the Group for the six months ended 30 June 2023 was mainly attributable to the decrease in sales volume of the yarn products from approximately 46,800 tonnes for the six months ended 30 June 2022 to approximately 38,911 tonnes for the six months ended 30 June 2023. The decrease in sales volume was mainly due to poor market conditions. The average selling price of yarn products of the Group decreased 15.9% from approximately RMB13,928 per tonne for the six months ended 30 June 2022 to approximately RMB11,710 per tonne for the six months ended 30 June 2023. The decrease in the average selling price of the yarn products was mainly due to the correlation with the lower prices of raw materials.

Gross Profit and Gross Profit Margin

Gross profit of the Group decreased from approximately RMB86.5 million for the six months ended 30 June 2022 to approximately RMB9.0 million for the six months ended 30 June 2023. The gross profit margin of the Group decreased from approximately 13.3% for the six months ended 30 June 2022 to approximately 2.0% for the six months ended 30 June 2023. The decrease in gross profit was mainly due to the decrease in sales volume and decrease in gross profit margin. The decrease in sales volume was due to unfavourable market conditions. The decrease in gross profit margin was due to the selling prices of yarn products decreased at a rate greater than that of raw materials. The Group has adjusted its product portfolio in response to the market situation, focusing more on polyester yarn products in order to cater for the needs of the downstream customers engaging in the domestic mass market. However, the margin of polyester yarn profits was lower than that of other yarn products. The Group has also adopted an aggressive pricing strategy in order to achieve sales. The above factors have contributed to the deterioration of profit margin.

Other Income

Other income of the Group increased from approximately RMB13.3 million for the six months ended 30 June 2022 to approximately RMB16.7 million for the six months ended 30 June 2023, representing an increase of approximately RMB3.4 million or 25.6%. The increase in other income was mainly due to increase in government grants and interest income partly offset by decrease in income from scrap sales.

Distribution and Selling Expenses

Distribution and selling expenses of the Group decreased from approximately RMB11.9 million for the six months ended 30 June 2022 to approximately RMB10.4 million for the six months ended 30 June 2023, representing a decrease of approximately RMB1.5 million or 12.6%. The decrease was mainly due to the decrease in sales volume of yarn products by approximately 16.9% and the effect of reduction in sales volume was partly offset by change in destination mix. Distribution and selling expenses as a percentage of revenue of the Group was approximately 2.3% for the six months ended 30 June 2023 (six months ended 30 June 2022: 1.8%).

Administrative Expenses

Administrative expenses of the Group slightly increased from approximately RMB24.5 million for the six months ended 30 June 2022 to approximately RMB25.4 million for the six months ended 30 June 2023, representing an increase of approximately RMB0.9 million or 3.7%. The increase in administrative expenses was mainly due to the increase in research and development expenses. Administrative expenses as a percentage of revenue of the Group was approximately 5.6% for the six months ended 30 June 2023 (six months ended 30 June 2022: 3.7%).

Finance Costs

Finance costs of the Group remained almost unchanged at approximately RMB11.0 million for the six months ended 30 June 2023 as compared to approximately RMB11.1 million for the six months ended 30 June 2022. The amount of bank borrowing and interest rate of the Group have remained stable.

Income Tax Credit/(Expense)

The Group's income tax credit for the six months ended 30 June 2023 was approximately RMB12.1 million as compared with an income tax charge of approximately RMB11.8 million for the six months ended 30 June 2022. The Group's effective income tax credit rate for six months ended 30 June 2023 was approximately 55.7% as compared with an effective income tax rate of 22.9% for the six months ended 30 June 2022. The income tax credit was mainly due to the reversal of over-provision in prior year and the recognition of deferred tax assets.

Loss attributable to Owners of the Company and Net Loss Margin

Loss attributable to owners of the Company for the six months ended 30 June 2023 was approximately RMB9.6 million, as compared to approximately RMB33.7 million of profit attributable to owners of the Company for the six months ended 30 June 2022. The Group's net loss was mainly due to the decrease in gross profit. The net loss margin of the Group for the six months ended 30 June 2023 was approximately 2.1% as compared with a net profit margin of approximately 5.2% for the six months ended 30 June 2022. The Group's net loss margin was mainly due to the decrease in gross profit.

(Loss)/Earnings per Share

The basic loss per share of the Company for the six months ended 30 June 2023 was approximately RMB0.77 cents as compared with approximately RMB3.17 cents basic earnings per share for the six months ended 30 June 2022. The decrease in earnings per share from continuing operations of the Company was due to decrease in the net profit for the six months ended 30 June 2023.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its bankers in the PRC. During the six months ended 30 June 2023, the Group had a net cash outflow from operating activities. The Group had cash and bank balances of approximately RMB172.7 million (31 December 2022: RMB263.4 million), pledged bank deposits of approximately RMB48.9 million (31 December 2022: RMB121.0 million) at 30 June 2023. 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 2023, the Group's interest-bearing borrowings amounted to approximately RMB485.7 million (31 December 2022: RMB514.5 million), RMB435.6 million (89.7%) of which (31 December 2022: RMB431.1 million (83.8%)) 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 RMB452.7 million in aggregate (31 December 2022: RMB537.7 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 35.4% at 30 June 2023 (31 December 2022: 38.5%). Net current liabilities and net assets at 30 June 2023 were approximately RMB232.5 million (31 December 2022: RMB213.9 million) and RMB705.4 million (31 December 2022: RMB715.1 million), respectively.

Foreign Exchange Exposure

The Group has foreign currency cash and bank balances, other receivables and other payables (31 December 2022: 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 2023 were approximately RMB4.7 million (31 December 2022: RMB17.5 million) and RMB0.9 million (31 December 2022: RMB15.1 million), respectively. The Group had not used any financial instrument for hedging purposes during the six months ended 30 June 2023.

Contingent Liabilities

As at 30 June 2023, the Group did not have any contingent liabilities.

Employees, Remuneration and Share Option Scheme

As at 30 June 2023, the Group had a total of 2,513 employees (31 December 2022: 2,423). 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 2023, the Group did not have any significant investments or acquisitions or disposal of subsidiaries.

PROSPECTS

During the six months ended 30 June 2023, the textile industry faced a lot of challenges. The Russia Ukraine Conflict has not stopped, major developed economies continue to suffer from high inflation, successive interest rates hikes led to a sharp rise in interest rates. The above factors have suppressed global demand and consumption. Other unfavourable factors such as complicated international trade environment, restructuring of global supply chain and high domestic production cost have contributed to the weakness in the export market for the textile products of the PRC. The PRC government has lifted all the Pandemic control measures in January 2023, normal lives and economic activities have resumed. The domestic sales of the PRC's textile industry showed a trend of gradual recovery. However, the increase in domestic sales of textile products was partly contributed by the discount sales by retailers in order to reduce the level of inventories.

Looking forward to the second half of 2023, with the resumption of economic activities after the Pandemic and the implementation of stimulating policies by the PRC government, it is expected that the PRC economy will maintain its resilience and continue to grow. However, the export market will remain weak under the current macro environment and the domestic market will continue to come under the pressure of inventory reduction.

The Group considers the future of the textile market is challenging. The New Workshop has commenced commercial production in the third quarter of 2022. A higher level of automation will result in labour cost saving which increases the competitive advantage of the Group. 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 increased level of automation and the economies of scale, the Group believes it is well positioned to take advantage of any turnaround in the textile industry.

DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2023.

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 2023.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, during the six months ended 30 June 2023, 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 2023.

AUDIT COMMITTEE

The audit committee of the Company has reviewed together with the management the accounting principles and policies adopted by the Group and reviewed the unaudited condensed consolidated financial information for the six months ended 30 June 2023.

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 2023 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

Hong Kong, 30 August 2023

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.