

## **Weiqiao Textile Announces its 2015 Interim Results**

### **Seize new opportunities in “new normal” development phase Continued leadership against the backdrop of industry changes**

#### **Financial Summary**

- Revenue was approximately RMB4,859 million, representing a decrease of approximately 18.7% over the corresponding period of last year.
- Gross profit was approximately RMB205 million, representing a decrease of approximately 59.5% over the corresponding period of last year.
- Net profit attributable to owners of the parent was approximately RMB314 million, representing an increase of approximately 49.5% over the corresponding period of last year.
- Gross profit margin was approximately 4.2%, representing a decrease of approximately 4.3 percentage points over the corresponding period of last year.

(Hong Kong, August 24, 2015) - Weiqiao Textile Company Limited (“the Company” or “Weiqiao Textile”) and its subsidiaries, collectively the “Group”) (HKEX: 2698), the largest cotton textile producer in China, announced its unaudited interim results for the six months ended June 30, 2015 (the “Review Period” or the “Period”).

In the first half of 2015, affected by the decline in domestic cotton price, the selling price of China’s textile products decreased accordingly. Given the higher inventory costs incurred by the Group as of the end of 2014, the decrease in selling price narrowed the gross profit margin of textile products of the Group, resulting in a substantial decrease in net profit. However, gains from the sales of electricity and steam of the Group increased due to the significant decrease of unit power generation cost after the completion of the new power assets swap by the Group at the end of 2014. During the Period, the Group recorded revenue of approximately RMB4,859 million, representing a decrease of approximately 18.7% over the same period in 2014. Net profit attributable to owners of the parent was approximately RMB314 million, representing an increase of approximately 49.5% over the same period in 2014. Earnings per share were RMB0.26. The Group’s gross profit margin was approximately 4.2% in the first half of 2015, representing a decrease of approximately 4.3 percentage points over the same period last year.

In the first half of 2015, we witnessed a modest recovery of the global economy with divergence in the performance of the major economies, while concurrently, China’s economy entered into a “new normal” development phase. Development of the textile industry in China remained stable during the first half of 2015, showing a trend of further improvement.

In terms of the export of textile products and apparel, affected by sluggish demand in

overseas markets, intensified international competition, substantial fluctuation in exchange rates and rapid development of textile products and the apparel industry in neighboring countries, exports of China's textile products and apparel recorded its first decrease in the recent seven years. According to statistics from the General Administration of Customs of the People's Republic of China (the "PRC"), China's total export of textile products and apparel was approximately US\$128.4 billion in the first half of 2015, representing a year-on-year decrease of approximately 3.1% and a year-on-year decrease in the growth rate of approximately 7.2 percentage points as compared to the same period last year. Export of textile products decreased by approximately 0.7% year-on-year to approximately US\$52.9 billion, and export of apparel decreased by approximately 4.7% year-on-year to approximately US\$75.5 billion.

In terms of domestic demand of textile products and apparel, against the backdrop of a slowdown in economic and consumption growth and industry structural adjustment, the growth of China's textile industry was slow but stable. According to the National Bureau of Statistics of the PRC, retail sales of apparel, footwear, headwear and knitwear from January to June 2015 by companies above a designated size in China (with annual revenue of over RMB20 million) posted a year-on-year increase of approximately 10.7%, approximately 0.7 percentage point higher than the growth of the same period of last year and approximately 0.3 percentage point higher than the growth of approximately 10.4% in the retail sales of consumer goods during the same period.

The cotton industry, which has significant impact on the textile industry, also experienced significant changes in policy and structural adjustment. With the implementation of the direct subsidy policy in Xinjiang with a target price of cotton in the year 2014/15, and the implementation of the strategy of "One Belt and One Road", the cotton industry in China entered a new phase of market-oriented development. From the beginning of 2015, under the combined effect of adequate cotton supply in the global market, a strong US Dollar, bottoming-out of international crude oil price, favorable net export sales of cotton in the U.S.A. and the deployment of the national cotton reserve by the PRC government, cotton prices in both domestic and overseas markets fluctuated at a low level as the gap between the domestic and overseas cotton prices narrowed, which will improve the international competitiveness of Chinese textile enterprises in the medium and long run.

Addressing the complicated domestic and international economic environment, the Group will adhere to self-improvement, implement its pre-determined development plan and increase the proportion of middle to high-end products. The Group will also develop new multi-functional products and improve its gross profit margin through adjustment in product mix. The Group will further reduce labor usage (measured by workers needed per ten thousand spindles), thus increasing labor efficiency per capita and reduce labor costs. Adhering to its strategy of placing equal emphasis on domestic sales and overseas exports, the Group will take proactive initiatives to explore business development opportunities both in domestic and overseas markets. The Group will also continue to follow prudent financial policy and implement scientific cash management, with an aim to further optimize its debt

structure. Furthermore, the Group will maintain high standards in fulfilling its social responsibilities on energy saving and environmental protection. Considering interests of all shareholders as a whole, the Group will further elevate its environmental standards of production, laying a solid foundation for the long-term sustainable development of the Group.

### Business Review

Affected by the weak macro economy both at home and abroad, during the first half of 2015, China's textile industry continued its sluggish performance that has persisted since the second half of 2014. With the termination of the cotton temporary reserve policy, domestic cotton price dropped rapidly in 2014 and has remained at a low level since the beginning of 2015. The utilization of the inventory of cotton purchased at a higher price squeezed the gross profit margin of textile enterprises. Alongside this, issues that have been plaguing the Chinese textile industry, such as rising labor costs, reduced downstream demand and declining sales price, still remained. Despite these adverse impacts on the textile business of the Group, it remained stable through the persistent efforts of all the staff of the Group, rational allocation of resources and flexible pricing policies. Coupled with the substantial decrease in unit power generation cost of the new power assets acquired by the Group through the swap at the end of 2014, gains from sales of electricity and steam increased.

During the Period, the approximate percentage of revenue contributed by the Group's cotton yarn, Grey fabric and denim are 33.1%、57.2% and 9.7%, respectively. The following table shows the breakdown of revenue by products for the six months ended 30 June 2015 and the corresponding period of 2014, respectively:

Product	Six-month period ended 30 June 2015 RMB'000	Six-month period ended 30 June 2014 RMB'000	Change (%)	Approximate Percentage of Group's revenue for the six months ended 30 June 2015 (%)
Cotton yarn	<b>1,607,000</b>	2,030,000	-20.8	33.1
Grey fabric	<b>2,778,000</b>	3,131,000	-11.3	57.2
Denim	<b>474,000</b>	812,000	-41.6	9.7
<b>Total</b>	<b>4,859,000</b>	5,973,000	-18.7	100.0

For the six months ended 30 June 2015, revenue from the Group's textile products decreased as compared with the corresponding period of last year. The decrease was primarily attributable to the decrease in the sales volume of the Group's cotton yarn, grey fabric and denim as compared with that of the corresponding period of last year due to sluggish demands in the domestic and overseas textile markets. Meanwhile, the decline in product prices as a result of a significant decrease in cotton price resulted in a year-on-year decrease in revenue from sales of cotton yarn, grey fabric and denim.

The following table shows the geographic breakdown of revenue for the six months ended 30 June 2015 and the corresponding period of 2014, respectively:

Geographical location	Six-month period ended 30 June 2015 RMB'000	Six-month period ended 30 June 2014 RMB'000	Change (%)	Approximate Percentage of Group's revenue for the six months ended 30 June 2015 (%)
Mainland China	<b>3,302,000</b>	3,242,000	1.9	68.0
Southeast Asia <sup>(1)</sup>	<b>400,000</b>	1,270,000	-68.5	8.2
Hong Kong	<b>678,000</b>	619,000	9.5	14.0
East Asia <sup>(2)</sup>	<b>279,000</b>	467,000	-40.3	5.7
Others <sup>(3)</sup>	<b>200,000</b>	375,000	-46.7	4.1
<b>Total</b>	<b>4,859,000</b>	5,973,000	-18.7	100.0

Note(1): Southeast Asia mainly includes Vietnam, Thailand, Malaysia, Indonesia, Philippines and Burma;

Note(2): East Asia includes Japan and South Korea;

Note(3): Others mainly include the US, Europe, Taiwan and Africa.

For the six months ended 30 June 2015, under the backdrop of a slow recovery in the global economy and sluggish market demand at home and abroad, the Group took initiatives in adjusting its product mix and exploring additional growth opportunities, thus maintaining a relatively stable sales performance in the domestic market. However, due to competition of textile products from low-cost countries, overseas revenue of the Group decreased, leading to a decline in the proportion of overseas revenue. During the Period, the proportion of the Group's overseas revenue was approximately 32.0%, while the proportion of domestic revenue was approximately 68.0%.

During the Period under Review, in light of the slow recovery of the global economy and reduced demand at home and abroad, coupled with competition from imported textile products with lower costs, the Group adjusted its production plans according to market conditions, and as a result the output of cotton yarn and grey fabric declined as compared with the corresponding period of last year. Cotton yarn output was approximately 161,000 tons, representing a decrease of approximately 22.6% compared with the corresponding period of last year; grey fabric output was approximately 448,000,000 meters, representing a decrease of approximately 5.5% as compared with the corresponding period of last year; denim output was approximately 37,000,000 meters, the same with that of the corresponding period of last year.

All production bases of the Group are located in Shandong Province, the PRC. Production of the Group was steady and all facilities were functioning in good conditions during the Period under Review.

## Selling and Distribution Expenses

For the six months ended 30 June 2015, the Group's selling and distribution expenses were approximately RMB65 million, representing a decrease of approximately 18.8% from approximately RMB80 million for the same period of last year. Among such expenses, transportation cost decreased by approximately 20.8% to approximately RMB38 million from approximately RMB48 million for the same period of last year. The decrease was mainly due to the decrease in the fees for transportation resulting from a decrease of the sales volume of the products of the Group during the Period. Salary of sales staff was approximately RMB12 million, representing an increase of approximately 9.1% from approximately RMB11 million for the corresponding period of last year. The increase was due to the slight increase in domestic sales revenue of the Group leading to a corresponding increase in the salary of relevant sales staff. Sales commission was approximately RMB3 million, the same with that of the corresponding period of last year.

### **Administrative Expenses**

For the six months ended 30 June 2015, the administrative expenses of the Group was approximately RMB169 million, representing an increase of approximately 22.5% from approximately RMB138 million for the corresponding period of last year. The increase was primarily attributable to the increase in depreciation included in the administrative expenses due to an increase in idle assets as a result of adjustments in the production plan by the Group given the sluggish market demand.

### **Finance Costs**

For the six months ended 30 June 2015, finance costs of the Group were approximately RMB305 million, representing a decrease of approximately 8.1% from approximately RMB332 million for the corresponding period of last year, among which, the interest expenses amounted to approximately RMB313 million, representing a decrease of approximately 1.9% as compared with approximately RMB319 million for the corresponding period of last year, which was mainly attributable to the slight decrease in the borrowing interest rate of the Group. Meanwhile, due to the depreciation of Renminbi, an exchange gain of approximately RMB8 million was recorded by the Group during the Period, while an exchange loss of approximately RMB12 million was recorded for the corresponding period of last year.

### **Net Profit Attributable to Owners of the Parent and Earnings per Share**

Net profit attributable to owners of the parent of the Group was approximately RMB314 million for the six months ended 30 June 2015, representing an increase of approximately 49.5% from approximately RMB210 million for the corresponding period of last year.

For the six months ended 30 June 2015, basic earnings per share of the Company were RMB0.26.

### **Outlook**

Ms. Zhang Hongxia, Chairman of Weiqiao Textile, said, "In the second half of 2015, it is expected that the global economy will continue to grow at a slow pace with divergence in

the performance of the major economies. Policies and measures implemented by the PRC government in the first half of 2015 will continue to produce positive results, and we expect the various reforms and innovative developments will contribute to boost industry growth and it is highly possible that the domestic economy will maintain the steady and positive growth momentum witnessed in the first half of the year. In view of this, the Group will closely observe market demands to capture the development trend of the industry. The Group will also adjust its product mix based on customer demands and adhere to its established strategy to further explore mid to high-end products and emerging markets. The Group will step up efforts in research and development, so as to improve the level of “intelligent manufacturing”, design and develop more functional products for diversified purposes, thereby improving its gross profit margin with upgraded product structure. Continuous efforts will be made to improve the level of equipment automation and business management, so as to enhance overall production efficiency and in turn further reduce production costs. The Group will take flexible measures to handle all kinds of orders, in an effort to maintain its superior order deliver ability. Furthermore, adhering to its strategy of placing equal emphasis on domestic sales and overseas exports, the Group will optimize its structure of international trade. Meanwhile, sticking to the principle of utilizing resources with high efficiency and minimizing environmental impact, the Group will adhere to green manufacturing. By leveraging its positive brand image, extensive operational experience and solid financial position, the Group is confident that it can improve its core competitiveness, seize strategic opportunities arising from industry changes, hence maintain and reinforce its position as the preferred supplier of cotton textile products both in China and across the globe.”

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## About Weiqiao Textile

Weiqiao Textile Company Limited, a non state-owned enterprise, is the largest cotton textile producer in the PRC, specializing in the production, sales and distribution of cotton yarn, grey fabric and denim. During the past ten years, the Group developed large-scale production capabilities by capitalizing on China's rapid economic growth. It has achieved a strong position in the global textile markets by employing advanced technology in state-of-the-art facilities. Weiqiao Textile is located in Shandong, China's second largest cotton producing province. The Group has four production bases in Weiqiao, Binzhou, Weihai and Zouping and employs approximately 71,000 people. As at June 30 2015, the Group produced approximately 161,000 tons of cotton yarn, 448,000,000 meters of grey fabric and 37,000,000 meters of denim.

## Disclaimer

This press release distributed herewith includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that Weiqiao Textile expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. Weiqiao Textile's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, project delay, project approval, cost estimates and other risks and factors beyond our control. In addition, Weiqiao Textile makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.

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