



Weiqiao Textile Announces 2012 Interim Results

The company continues to strengthen its business development, and maintains a leading position in the industry

Financial Summary

- ◆ Revenue was approximately RMB7,709 million, down approximately 4.0% YoY.
- ◆ Gross profit was approximately RMB419 million, down approximately 58.8% YoY.
- ◆ Net profit attributable to owners of the parent was approximately RMB54 million, down approximately 90.1% YoY.
- ◆ Gross profit margin was approximately 5.4%, representing a decrease of 7.3 percentage points as compared with the gross profit margin of approximately 12.7% for the corresponding period of last year and an increase of 3.6 percentage points as compared with the gross profit margin of approximately 1.8% for 2011.
- ◆ In view of the weak overall demand in the textile market, the Group adopted flexible sales strategies, which contributed to increases in sales volumes by approximately 64.6%, 9.0% and 3.2% for cotton yarn, grey fabric and denim over the corresponding period of last year, respectively.

(Hong Kong, 20 August, 2012) – Weiqiao Textile Company Limited (“the Company” or “Weiqiao Textile” and its subsidiaries, collectively called the “Group”; HKEX:2698), the largest cotton textile producer in China, announced its unaudited consolidated interim results for the six months ended 30 June 2012 (the “Review Period” or the “Period”).

During the Period under Review, the textile industry in China was significantly affected by the challenging global macroeconomic situation. Factors such as weak demand in both overseas and domestic markets, the cotton price gap between domestic and overseas markets, and intensified international competition caused a decline in the textile industry in China. As a result, the whole industry saw a slowdown in production growth and domestic sales, greater downward pressure on exports and declining earnings.

During the Period, exports of China’s textile products increased, though at a much lower rate. According to the statistics released by the Administration of China Customs, China’s exports of textile products in the first half of 2012 rose by approximately 1.3% as compared with the corresponding period of 2011, to approximately US\$46.5 billion. The growth rate declined approximately 27.5 percentage points from approximately 28.8% in the corresponding period of 2011.

During the first half of 2012, the Group’s production volume of cotton yarn, grey fabric and denim were approximately 206,000 tonnes, 498 million meters and 42 million meters, representing decreases of approximately 37.6%, 14.1% and 16.0%, respectively, over the corresponding period of last year. The decrease was mainly due to the Group’s adjusting its production plans to lower the output with a view to reduce inventory levels on the back of intense competition, caused by weak market demand for textile products and large cotton price gap between domestic and overseas markets.

During the Period, our revenue was approximately RMB7,709 million, representing a decrease of approximately 4.0% from the corresponding period of 2011. Net profit attributable to owners of the parent was approximately RMB54 million, representing a decrease of approximately 90.1% as compared with the corresponding period of 2011. Earnings per share were RMB0.05. The Group's gross profit margin for the first half of 2012 was approximately 5.4%, 7.3 percentage points lower than that in the corresponding period of 2011, but 3.6 percentage points higher than the 1.8% gross profit margin for the whole year 2011. The Board of the Company recommended no payment of the interim dividend for the six months ended 30 June 2012.

Commenting on the first half of 2012 interim results performance, Ms. Zhang Hongxia, Chairman of Weiqiao Textile, said, "During the Period, cotton prices in the domestic market remained at a low level while declining sharply in overseas markets, making overseas cotton much cheaper than domestic cotton, which led to greater competition pressure on the domestic textile industry. Therefore, it was difficult to lift the prices of textile products, which significantly affected the Group's overall profitability."

Business Review

During the Period under Review, the Group's financial results were affected by weak demand from overseas markets, a slowdown in demand in the domestic market, and the large cotton price gap between domestic and overseas markets. Despite the challenging situation, the Group continued to strengthen its business development, internal management and cost control, and optimize its resource allocation. The Group also continued to further optimize its product portfolio to cater to market demand. It also took a more flexible approach to its sales strategy and made other improvements across its value chain, from research and development, to procurement, production and marketing and sales so as to ensure its stable operation. The Group is confident that it will overcome the current challenges and take advantage of opportunities arising from consolidation to further enhance its dominant position in the industry.

Cotton yarn, grey fabric and denim are key products of the Group. The proportions of revenue generated from the sales were approximately 47.9%, 46.2% and 5.9% respectively. As at the six months ended 30 June 2012 and 2011, the breakdowns of revenue by products are as follows:

Products	Revenue in 1H2012 (RMB 000')	Revenue in 1H2011 (RMB 000')	Change (%)	Sales proportion for 1H2012 (%)
Cotton yarn	3,692,000	3,568,000	3.5	47.9
Grey fabric	3,563,000	3,933,000	-9.4	46.2
Denim	453,000	515,000	-12.0	5.9
Others	1,000	15,000	-93.3	0.0
Total	7,709,000	8,031,000	-4.0	100.0

For the six months ended 30 June 2012, the revenue contribution of cotton yarn increased compared with the corresponding period of last year, while the revenue contribution of grey fabric and denim decreased. The Group adopted flexible sales strategy to reduce cotton yarn inventory according to changes in market demand, which led to an increase in revenue generated from cotton yarn.

As at the six months ended 30 June 2012 and 2011, the breakdowns of revenue by geographical location are as follows:

Regions	Revenue in 1H2012 (RMB 000')	Revenue in 1H2011 (RMB 000')	Change (%)	Sales proportion for 1H2012 (%)
China	5,778,000	4,847,000	19.2	75.0
Hong Kong	733,000	755,000	-2.9	9.5
East Asia ⁽¹⁾	439,000	1,350,000	-67.5	5.7
Others ⁽²⁾	759,000	1,079,000	-29.7	9.8

Note (1): East Asia includes Japan and South Korea;

Note (2): Others mainly include Southeast Asia, the US, Europe, Taiwan and Africa.

Selling and Distribution Expenses

The Group's selling and distribution costs increased by approximately 26.5% to approximately RMB105 million for the six months ended 30 June 2012 from approximately RMB83 million for the corresponding period of last year. In particular, transportation costs increased by approximately 24.2% to approximately RMB77 million from approximately RMB62 million for the corresponding period of last year. This was mainly due to the increased sales volume of the Group's products during the Period, which increased transportation costs accordingly. Salary of the sales staff was approximately RMB13 million, representing an increase of approximately 44.4% as compared with approximately RMB9 million for the corresponding period of last year. The increase was primarily due to the increase in the Group's domestic sales during the Period which resulted in the increase in the salary of the sales staff accordingly. Sales commission was approximately RMB6 million, representing a decrease of approximately 33.3% as compared with approximately RMB9 million of the corresponding period of last year. Such decrease was primarily because, on one hand, a decrease in the Group's overseas orders for the current period in a weak international consumption market resulted from the slow recovery in the global economy; and on the other hand, a decrease in the Group's overseas sales through intermediate traders during the Period resulted in a drop in the commission paid.

Administrative Expenses

Administrative expenses of the Group for the six months ended 30 June 2012 amounted to approximately RMB118 million, representing an increase of approximately 5.4% as compared with approximately RMB112 million of the corresponding period of last year. It was primarily due to the upward adjustment of wages by the Group and the increase in the salary expenses of administrative management staff.

Finance Costs

For the six months ended 30 June 2012, finance costs of the Group were approximately RMB323 million, representing an increase of approximately 38.6% as compared with approximately RMB233 million for the corresponding period of last year. This was because on one hand, there was an increase in interest expenses as a result of the year-on-year increase in the interest rate of bank borrowings during the Period; and on the other hand, affected by the depreciation of RMB in the current period, the Group recorded exchange loss for holding a large amount of balances of payables and loans denominated in US Dollars.

Outlook

Weiqiao Textile's Chairman, Ms. Zhang concluded, "Looking ahead, we expect the global economy to continue to pose challenges, and this will likely cause demand from international markets to remain weak. On the domestic front, surging labor and other production costs, funding difficulties, and other issues are not expected to be resolved in the near future. The trend for the cotton price gap between domestic and overseas markets remains uncertain. As such, the operating environment for the textile industry in China will most likely remain challenging. With growing

domestic consumption, demand for various middle and high-end textile products and apparel is expected to grow. And following recent reserve requirement ratio and interest rate cuts, it is expected that more favorable policies to stabilize the economy will be issued in the second half of 2012, which would support the steady development of the textile industry in China. Although the operating environment for China's textile industry in the second half of 2012 will remain challenging, we believe the industry will show low, but positive growth."

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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 strong positioning in the global textile markets by employing advanced technology in state-of-the-art facilities. The Group is located in Shandong, China's second largest cotton producing province. The Group has four production bases in Weiqiao, Binzhou, Weihai and Zouping. As at 31 June 2012, the Group employs approximately 88,000 people. In the first half of 2012, the Group produced approximately 206,000 tons of cotton yarn, 498,000,000 meters of grey fabric and 42,000,000 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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