

Weiqiao Textile Announces its 2014 Interim Results

**Met the changing market conditions, optimized products mix
Continued leadership in industry consolidation**

Financial Summary

- ◆ Revenue was approximately RMB5,973 million, representing a decrease of approximately 10.9% over the corresponding period of last year.
- ◆ Gross profit was approximately RMB506 million, representing a decrease of approximately 15.9% over the corresponding period of last year.
- ◆ Net profit attributable to owners of the parent was approximately RMB210 million, representing a decrease of approximately 21.1% over the corresponding period of last year.
- ◆ Gross profit margin was approximately 8.5%, representing a decrease of approximately 0.5 percentage point over the corresponding period of last year.

(Hong Kong, August 25, 2014) - 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, 2014 (the “Review Period” or the “Period”).

During the Period, the adjustment to the cotton policy by the Chinese government resulted in a downward cotton price expectations, which triggered a strong wait-and-see sentiment from downstream textile manufacturing companies and decreased market demand. As a result, the Group recorded a year-on-year decrease in sales volume of cotton yarn and grey fabric as well as lower average selling price, leading to a year-on-year drop in the Group’s revenue and net profit accordingly. During the Period under Review, the Group recorded revenue of approximately RMB5,973 million, representing a decrease of approximately 10.9% from the same period in 2013. Net profit attributable to owners of the parent was approximately RMB210 million, representing a decrease of approximately 21.1% from the same period in 2013. Earnings per share were RMB0.18. The Group’s gross profit margin was approximately 8.5% for the first half of 2014, representing a decrease of approximately 0.5 percentage point over the same period last year.

In the first half of 2014, we witnessed a modest recovery of the global economy emerged with China achieving steady but softer growth, suggesting an increasingly complicated macroeconomic situation weighted with downward risk. In the United States, favorable industry restructuring and stable monetary stimulus policies slowly lifted the economy and drove growth rebound in private consumption. In Europe, high-income countries led by Germany maintained robust growths, paving the way for a recovery across the Euro Zone. However, due to the aftermath of the debt crisis and its resulting geopolitical impact, other European regions have been unable to gain growth momentum in the short-term. While the overall international environment remained favorable for China in gaining a better position in international production value chain, emerging economies who previously were global growth drivers have been unable to gain momentum, affecting China’s export growth to

some extent. During the Period, the global economic recovery did not positively impact the textile industry in China.

In terms of export market, according to 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\$132.5 billion in the first half of 2014, representing an increase of approximately 4.1% year-on-year which was approximately 8.0 percentage points slower than the same period last year. Export of textile products increased by approximately 4.2% year-on-year to approximately US\$53.3 billion, and export of apparel increased by approximately 4.1% year-on-year to approximately US\$79.2 billion, indicating a stable growth overall.

Demand growth in the domestic market was slower. According to the National Bureau of Statistics of the PRC, retail sales of apparel, footwear, headwear and knitwear from January to June 2014 by companies above designated size in China with annual revenue of over RMB20 million posted a year-on-year increase of approximately 10.0%. This growth was approximately 1.9 percentage points slower than the same period last year and also fell behind the growth of approximately 12.1% in the retail sales of consumer goods. Demand for cotton products should remain steady given the increasing consumer preference towards comfortable textile products as a result of income growth and the improving living standards of the Chinese residents.

Pursuant to the No. 1 Circular released by the PRC government in 2014, a pilot subsidy programme was scheduled with a target price for Xinjiang produced cotton. On 5 April of 2014, the cotton target price for 2014 was set at RMB19,800 per tonne, as jointly published by the National Development and Reform Commission, the Ministry of Finance and the Ministry of Agriculture of the PRC. The lowest selling price for standard reserved cotton dropped from RMB18,000 per tonne to RMB17,250 per tonne since 1 April 2014. The change in cotton policy resulted in a downward cotton price expectation, which has made the downstream companies take a wait-and-see-attitude towards the procurement of raw materials, and adopt a low inventory procurement strategy to minimize raw material inventory while ensuring production needs, increasing the pressures over the upstream companies to some extent.

Addressing the complicated domestic and international environment, the Group will adhere to the self-improvement approach to implement its established development plan, optimizing its product portfolio towards middle to high-end products. This combined with efforts to boost operational efficiency, will allow the Group to proactively respond to changes in both domestic and overseas markets. Meanwhile, the Group will maintain our high standards to fulfill our social responsibilities on energy conservation and environmental protection. Environmental standards and facilities of production will be further elevated and upgraded in the interests of shareholders as a whole, laying a solid foundation for our sustainable development in the long run.

Business Review

During the Period under Review, downward cotton price expectations, rising labour costs and declining sales price of the terminal products were the key issues faced by China's textile industry. Downward price expectations of new cotton in China were a result of the

cancellation of the government's national cotton temporary reserve policy and the implementation of a direct subsidy policy announced at the beginning of 2014. The government has yet to implement a detailed full scale direct subsidy policy and, as a result, downstream customers have adopted a cautious approach to purchasing, which has negatively impacted demand, the Group's sales volume, and selling prices of textile products. Faced with this unfavorable business environment, the Group kept production costs low by procuring cotton globally and maintaining self-supply in electricity and steam energy, and adopted flexible marketing and pricing strategies, thus maintaining stable production operations.

During the Period, the approximate percentage of revenue contributed by the Group's cotton yarn, Grey fabric and denim are 34.0%、52.4% and 13.6%, respectively. The following table shows the breakdown of revenue by products for the six months ended 30 June 2014:

Product	Six-month period ended 30 June 2014 RMB'000	Six-month period ended 30 June 2013 RMB'000	Change (%)	Approximate Percentage of Group's revenue for the six months ended 30 June 2014 (%)
Cotton yarn	2,030,000	2,400,000	-15.4	34.0
Grey fabric	3,131,000	3,783,000	-17.2	52.4
Denim	812,000	519,000	56.5	13.6
Total	5,973,000	6,702,000	-10.9	100.0

For the six months ended 30 June 2014, the proportion of revenue contributed by the Group's cotton yarn and grey fabric decreased as compared with the corresponding period of last year. The decrease was primarily attributable to slow recovery of the global economy, the downward cotton price expectations and the strong wait-and-see approach taken by the downstream market resulting in reduced demand at home and abroad during the Period. A decrease in the Group's sales volume of the Group's cotton yarn and grey fabric also impacted revenue contribution along with a decline in product prices, thus reducing the year-on-year revenue from sales of cotton yarn and grey fabric. The increase in the proportion of revenue contributed by denim was due to the Group's strengthening scales efforts in middle to high-end denim by taking the market-oriented approach and capitalizing the opportunity, leading to an increase in sales volume of middle to high-end denim.

During the Period under Review, the downstream market adopted a cautious attitude resulting in reduced demand at home and abroad. This was due in part to downward cotton price expectations caused by adjustment in China's cotton policy and the slow recovery of the global economy. In response, the Group adjusted its production plans resulting in a year-on-year decline in output of cotton yarn and grey fabric. Cotton yarn output was approximately 208,000 tons, representing a decrease of approximately 12.6% as compared with that of the corresponding period of last year; grey fabric output was approximately 474,000,000 meters, representing a decrease of approximately 3.5% as compared with that of the corresponding period of last year; and denim output was approximately 37,000,000 meters, essentially flat when compared to the corresponding period of last year.

With all production bases 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.

The following table shows the geographic breakdown of revenue for the six months ended 30 June 2014:

Geographical location	Six-month period ended 30 June 2014 RMB'000	Six-month period ended 30 June 2013 RMB'000	Change (%)	Approximate Percentage of Group's revenue for the six months ended 30 June 2014 (%)
Mainland China	3,242,000	3,415,000	-5.1	54.3
Southeast Asia ⁽¹⁾	1,270,000	451,000	181.6	21.3
Hong Kong	619,000	1,714,000	-63.9	10.4
East Asia ⁽²⁾	467,000	566,000	-17.5	7.8
Others ⁽³⁾	375,000	556,000	-32.6	6.2
Total	5,973,000	6,702,000	-10.9	100

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.

Selling and Distribution Expenses

For the six months ended 30 June 2014, the Group's selling and distribution expenses were approximately RMB80 million, representing a decrease of approximately 22.3% from approximately RMB103 million for the same period of last year. Among those costs, transportation cost decreased by approximately 25.0% to approximately RMB48 million from approximately RMB64 million for the same period of last year. This was mainly due to the decrease in the fees for transportation resulting from a decrease of the sales of the products of the Group during the Period. Salary of sales staff was approximately RMB11 million, representing a decrease of approximately 35.3% from approximately RMB17 million for the corresponding period of last year. The decrease was due to the decline of domestic sales revenue of Group leading to corresponding decrease in the salary of such sales staff. Sales commission was approximately RMB3 million, representing a decrease of approximately 50.0% from approximately RMB6 million for the corresponding period of last year. The decrease was due to the decrease of overseas sales revenue, leading to a decline in the payment of the commission.

Administrative Expenses

For the six months ended 30 June 2014, the administrative expenses of the Group was approximately RMB138 million, representing a decrease of approximately 2.1% from approximately RMB141 million for the corresponding period of last year. Such decrease was primarily due to the decrease of the depreciation included in the administrative expenses as the Group partially disposed idle scrap equipments at the end of last year.

Finance Costs

For the six months ended 30 June 2014, finance costs of the Group were approximately RMB332 million, representing an increase of approximately 23.9% from approximately RMB268 million for the corresponding period of last year, among which, the interest expenses amounted to approximately RMB319 million, representing an increase of approximately 20.8% as compared with approximately RMB264 million for the corresponding period of last year, which was mainly attributable to the increase in the Group's total borrowings and the slight increase in the borrowing interest rate. Due to the depreciation of Renminbi, an exchange loss of approximately RMB12 million was recorded by the Group during the Period, while an exchange loss of approximately RMB4 million was reported 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 RMB210 million for the six months ended 30 June 2014, representing a decrease of approximately 21.1% from approximately RMB266 million for the corresponding period of last year.

For the six months ended 30 June 2014, basic earnings per share of the Company were RMB0.18.

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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 83,000 people. As at June 30 2014, the Group produced approximately 208,000 tons of cotton yarn, 474,000,000 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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