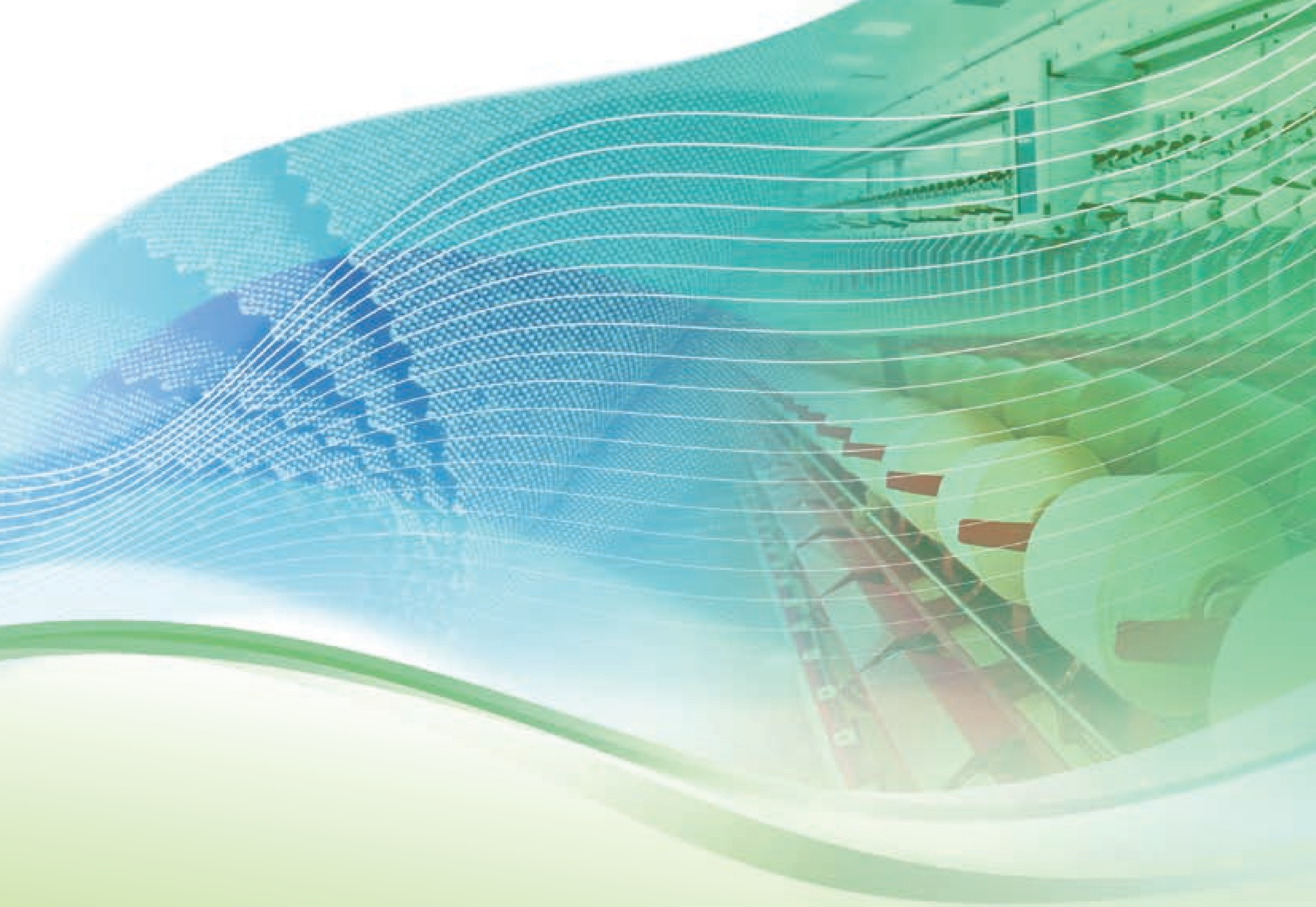
魏橋紡織股份有限公司
Weiqiao Textile Company Limited
(Stock Code : 2698)

# Interim Report 2013



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# SUMMARY

Interim results for the six months ended 30 June 2013

- Revenue was approximately RMB6,702 million, representing a decrease of approximately 13.1% over the corresponding period of last year.

- Gross profit was approximately RMB602 million, representing an increase of approximately 43.6% over the corresponding period of last year.

- Net profit attributable to owners of the parent was approximately RMB266 million, representing a significant increase of approximately 392.6% over the corresponding period of last year.

- Gross profit margin was approximately 9.0%, representing an increase of 3.6 percentage points as compared with the gross profit margin of approximately 5.4% for the corresponding period of last year.

# CORPORATE INFORMATION

## EXECUTIVE DIRECTORS
Zhang Hongxia *(Chairman)*
Zhang Yanhong
Zhao Suwen
Zhang Jinglei

## NON-EXECUTIVE DIRECTORS
Zhang Shiping
Zhao Suhua

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Wang Naixin
Xu Wenying
Chan Wing Yau, George

## SUPERVISORS
Lu Tianfu
Wang Wei
Wang Xiaoyun

## COMPANY SECRETARY
Zhang Jinglei

## AUDIT COMMITTEE
Chan Wing Yau, George *(Chairman)*
Wang Naixin
Xu Wenying

## REMUNERATION COMMITTEE
Wang Naixin *(Chairman)*
Zhang Hongxia
Xu Wenying

## NOMINATION COMMITTEE
Zhang Hongxia *(Chairman)*
Wang Naixin
Xu Wenying

## AUTHORISED REPRESENTATIVES
Zhao Suwen
Zhang Jinglei

## PLACE OF BUSINESS IN HONG KONG
Suite 5109
The Center, 99th Queen's Road
Central, Hong Kong

## LEGAL ADDRESS IN THE PRC
No.34, Qidong Road
Weiqiao Town
Zouping County
Shandong Province
The PRC

## PRINCIPAL PLACE OF BUSINESS IN THE PRC
No.1, Weifang Road
Zouping Economic Development Zone
Zouping County
Shandong Province
The PRC

## LEGAL ADVISOR AS TO HONG KONG LAW
Orrick, Herrington & Sutcliffe

## INTERNATIONAL AUDITOR
Ernst & Young

## HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE
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## COMPANY WEBSITE
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## STOCK CODE
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## INVESTOR RELATIONS
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# CHAIRMAN'S STATEMENT

It is my pleasure to present on behalf of the board of directors (the "Board") of Weiqiao Textile Company Limited ("Weiqiao Textile" or the "Company") the unaudited consolidated interim results of the Company together with its subsidiaries (collectively, the "Group") for the six months ended 30 June 2013 (the "Period" or "Period under Review".)

During the Period under Review, insufficient overseas demand, a slowdown in the growth in domestic demand, a gap between domestic and overseas cotton prices, and the increase in the production costs including labour cost were still the major issues that affected China's textile industry during the Period.

Exports of Chinese textile and apparel products showed signs of recovery driven by the gradual economic recovery as well as the stabilization and recovery of raw material prices. According to statistics released by the General Administration of Customs of the People's Republic of China, China's total exports of textile and apparel products from January to June 2013 increased by approximately 12.1% year over year to approximately US$127.2 billion, up by approximately 10.5 percentage points as compared with the growth rate of the same period last year.

During the Period under Review, the domestic market still sustained the development of China's textile industry, yet with a slower growth rate. According to statistics released by the National Bureau of Statistics of China, retail sales of apparel, footwear, headwear and knitwear from January to June 2013 by enterprises above designated size in China with annual revenue of over RMB20 million were approximately RMB541.5 billion which increased by approximately 11.9% year over year. The increase rate is approximately 5.0 percentage points lower compared to the same period last year, while the total retail sales of consumer goods grew by approximately 12.7%, demonstrating a relatively slower recovery in textile industry.

Prices of cotton, the raw materials remained stable around the minimum guaranteed price during the Period due to the implementation of the Chinese government's reserve policy. In general, overseas cotton prices remained at low levels and the price gap between domestic cotton and overseas cotton remained relatively large despite a slightly narrowed cotton price gap recorded at the beginning of 2013 as the overseas cotton prices increased. Since the import quota for cotton was limited, most Chinese cotton textile companies had to procure domestic cottons at higher prices, which increased the costs and therefore reduced the competitiveness of the Chinese cotton textile industry in the global markets.

During the Period under Review, the Group recorded revenue of approximately RMB6,702 million, representing a decrease of approximately 13.1% compared with that of the same period in 2012. Net profit attributable to owners of the parent was approximately RMB266 million, representing a significant increase of approximately 392.6% as compared with that of the same period in 2012; earnings per share were RMB0.22. Gross margin of the Group during the first half of 2013 was approximately 9.0%, representing an increase of 3.6 percentage points compared with that of approximately 5.4% in the same period in 2012.

Looking ahead, the world's economy still faces uncertainties on an expected slow rebound. The recovery of China's textile export is also clouded by the uncertainties of the economic development in the European Union and the continual weakening of Japanese Yen. Domestically, China's policies aiming to stabilizing and transforming the economy may result in a slower economic growth; meanwhile, the raw material market for Chinese textile industry will also move along with the unpredictable national cotton reserve policies. However, in the long term, new consumption demand is expected to be created by increasing urban population as urbanization accelerates under the guidance of the Chinese government's policy of "modest progression", and sustainable growth could be realised in the textile, apparel and household textile industries as the domestic consumer goods market continues to upgrade.

# CHAIRMAN'S STATEMENT

Given the foregoing, Weiqiao Textile will be prepared for various challenges and difficulties. The Group will leverage its strengths in scale and R&D, improve the level of automation, and upgrade its product mix to further enhance operational efficiency and mitigate the adverse impact on the Group caused by increasing labor costs. Meanwhile, the Group will also continue to focus on energy-saving and emission reduction through technology innovations, so as to commit more on social responsibilities. Weiqiao Textile will remain committed to its strategy of focusing on both high-end and emerging markets. In the long term, given the accelerated progress of industrial evolution within the industry, companies with high-tech products will be the ones to garner competitive edges.

On behalf of the management of Weiqiao Textile, I would like to express my gratitude to our shareholders for their constant support to the Group. It is their trust and support, together with the efforts of our staff that enable us to face challenges with confidence. I would like to take this opportunity to express my heartfelt gratitude to our shareholders, investors and business partners for their trust and support. I would also like to thank the members of the Board, the entire management team and our employees, for their dedication and hard work for the Group.

*Chairman*
**Zhang Hongxia**

Shandong, the PRC
23 August 2013

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

Both domestic and overseas economies faced various challenges during the first half of 2013. The overall textile industry in China was under increasing pressure to transform and faced an unfavorable export environment due to the slow recovery of the global economy. Fortunately, the narrowed price gap between domestic cotton and overseas cotton helped China's textile and apparel regain competitiveness in the global market. As the reduction in high cost inventories was almost completed and order mix was improved, the performance of the textile and apparel industry of China improved during the first half of 2013 compared to 2012.

During the Period under Review, domestic demand remained stable. According to the statistics released by China National Textile and Apparel Council Statistics Center, from January to May of 2013, domestic sales of Chinese textile companies above designated size grew by approximately 15.2% year over year; the fixed asset investment of the textile industry increased, in particular, the actual investment of the fixed asset investment projects conducted by Chinese textile companies above designated size reached approximately RMB152.5 billion, approximately 9.7% higher than that of the previous year, down by approximately 7.4 percentage points as compared with the growth rate of the corresponding period last year.

Against the backdrop of the modest recovery in the US economy and the bottoming out of the EU economy, export demand for Chinese textile goods improved during the first half of 2013. However, due to a much higher domestic cotton price compared to overseas cotton price, textile companies in China suffered from higher production costs than their overseas peers, resulting in weakened competitiveness. Meanwhile, mixed overseas demand was observed. US market demonstrated a sign of slow rebound in demand for textile products. In Japan, the recovery has already occurred and is expected to be sustainable given the positive sign demonstrated by several key indicators, including import growth rate, inventory levels and capacity utilization rate. Since the financial crisis in 2009, the demand in the EU for textile products had recovered. However, impacted by the European debt crisis, the overall recovery shows signs of fluctuation, leaving a larger room for improvements in future.

Specifically, according to the statistics released by the General Administration of Customs of the People's Republic of China, China's exports of textile products in the first half of 2013 totaled approximately US$51.2 billion, up by approximately 10.1% compared with the corresponding period of last year. The growth rate increased by approximately 8.8 percentage points from approximately 1.3% in the corresponding period of 2012. During the Period, exports of textile and apparel products to various countries and regions were as follows:

- United States: approximately US$18.2 billion, representing an increase of approximately 5.0% from the corresponding period of last year, while the growth rate decreased by approximately 1.9 percentage points.

- Japan: approximately US$12.2 billion, representing a decrease of approximately 0.4%.

- Hong Kong: approximately US$9.4 billion, representing an increase of approximately 23.4%, while the growth rate increased by approximately 22.1 percentage points.

- European Union: approximately US$21.9 billion, representing an increase of approximately 3.0%, while the growth rate increased by approximately 15.2 percentage points compared with the corresponding period of last year.

The export of Chinese textile and apparel products to emerging markets of ASEAN, the Middle East, and Africa, increased by approximately 43.1%, 11.3% and 8.6%, respectively.

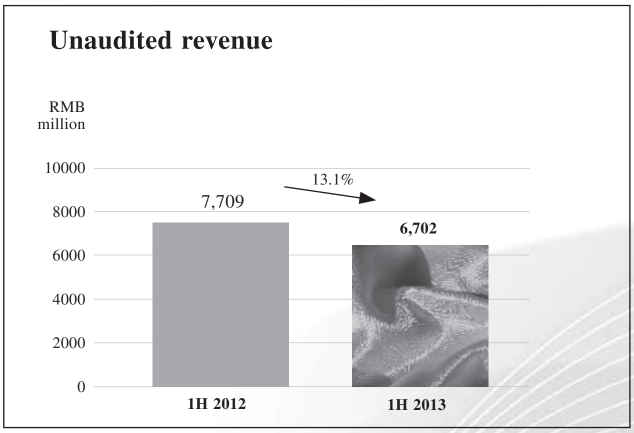
# MANAGEMENT DISCUSSION AND ANALYSIS

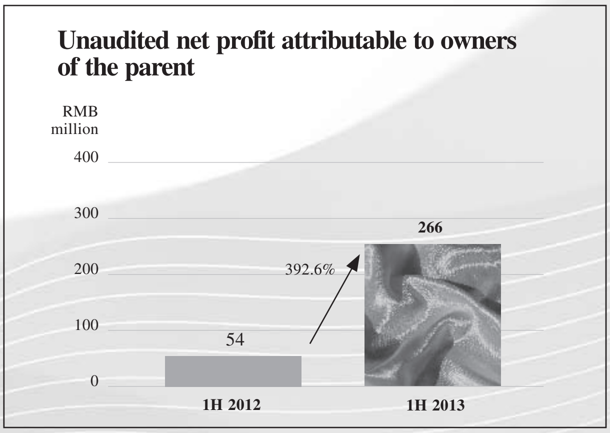
On the raw material side, although the gap between domestic and overseas cotton prices narrowed to some extent in the first half of 2013, the price gap is not expected to be diminished in the short run. From January to June 2013, the average price of cotton according to the Cotton A Index in China was approximately RMB20,127 per ton, down by approximately 1.5% compared to the corresponding period of last year. Given the implementation of China's reserve policy, the domestic cotton prices remained stable, with the highest price reaching approximately RMB20,147 per ton and the lowest price of approximately RMB20,100 per ton. The average price of cotton according to the Cotlook A Index in the global market was approximately 91.35 US cents per pound, a decrease of approximately 4.2% as compared with that of the corresponding period of last year, with the highest price reaching approximately 94.45 US cents per pound, and the lowest price of approximately 85.51 US cents per pound.

## BUSINESS REVIEW

In the first half of 2013, adverse factors such as weak demand and large cotton price gap between domestic and overseas markets still haunted the cotton textile industry in China. However, taking a market demand-oriented approach, Weiqiao Textile firmly grasped the opportunity to boost sales with a more flexible sales strategy, thus, further enhancing the Group's competitive advantages and its leading industry position.

For the six months ended 30 June 2013, the unaudited revenue of the Group and the net profit attributable to owners of the parent, together with the comparative figures for the corresponding period in 2012, are as follows:



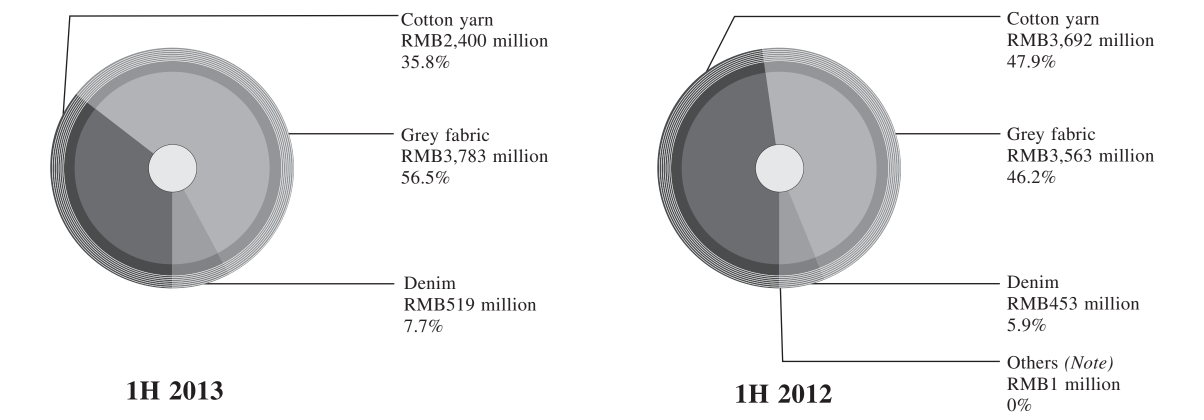




For the six months ended 30 June 2013, the Group's revenue was approximately RMB6,702 million, representing a decrease of approximately 13.1% as compared with the corresponding period of 2012. The overall decrease was mainly attributable to the decrease in sales volume of cotton yarn of the Group during the Period as compared with the corresponding period of last year. Net profit attributable to owners of the parent was approximately RMB266 million, representing a significant increase of approximately 392.6% from the corresponding period of 2012. Apart from the lower comparative base of profits for the same period of last year, the increase was mainly attributable to the improvement in gross profits due to the decline in unit cost of sales, the rise in profit generated from the sale of electricity as a result of reduced coal price and the reduced finance costs of the Group during the same period.

# MANAGEMENT DISCUSSION AND ANALYSIS

The charts below are a comparison of the breakdown of revenue by products for the six months ended 30 June 2013 and the corresponding period of 2012, respectively:

**Proportion of revenue by product**

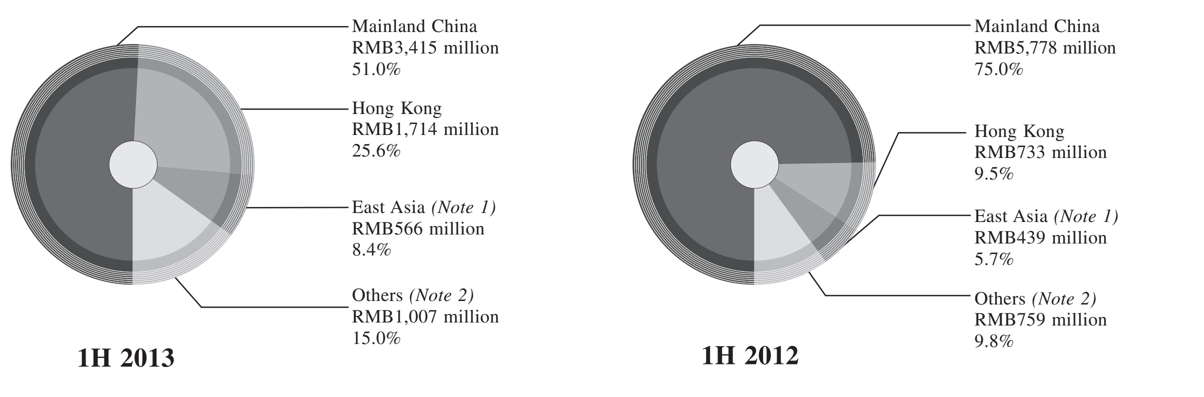



*Note: Others include cotton seed and other by-products.*

For the six months ended 30 June 2013, the proportion of revenue contributed by the Group's cotton yarn decreased as compared with the corresponding period of last year. The decrease was mainly attributable to the drop in revenue from cotton yarn resulting from the decrease in sales volume of cotton yarn as compared with the corresponding period of last year. The decrease in sales volume was mainly due to a higher comparable base caused by the Group's efforts in reducing part of cotton yarn inventory during the corresponding period of last year. The increase in the proportion of revenue contributed by grey fabric and denim was due to the market demand-oriented approach and the flexible sales strategy adopted by the Group, leading to an increase in sales volume of grey fabric and denim.

The following charts show the geographic breakdown of revenue for the six months ended 30 June 2013 and the corresponding period of 2012:

**Proportion of revenue by geographical locations**




*Note 1: East Asia includes Japan and South Korea;*
*Note 2: Others mainly include Southeast Asia, the US, Europe, Taiwan and Africa.*

# MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2013, the proportion of revenue from the Group's overseas sales increased as compared with the corresponding period of last year. This was mainly because the Group timely responded to the recovering global demand by adjusting product portfolios to proactively develop overseas markets during the Period; as a result, export orders grew with an approximately 70.2% year over year rise in overall revenue from overseas sales.

In the first half of 2013, the Group's production volume of cotton yarn was approximately 238,000 tons, representing an increase of approximately 15.5% as compared with the same period of last year. The main reason was that the Group increased the output of cotton yarn according to market demand during the Period as inventory products were gradually reduced. The production volume of grey fabric was approximately 491 million meters. The output of grey fabric remained flat as compared with the same period of last year. The production volume of denim was approximately 36 million meters, representing a decrease of approximately 14.3% as compared with the same period of last year, which was mainly due to an adjustment to the Group's product portfolios to increase the output of high-end denim in light of the market conditions.

As the world's largest cotton textile enterprise, Weiqiao Textile will further expand its market share by producing more high value-added products and mid-to-high-end products, improving internal management, strengthening cost control, accelerating technological upgrades, and enhancing product quality and operating efficiency. By leveraging a reputable brand image, extensive operating experience and solid financial position, the Group is confident that it can maintain and strengthen its position as the first-choice supplier for our cotton textile customers around the world.

## FINANCIAL REVIEW

### Gross Profit and Gross Profit Margin

The table below is an analysis of the Group's gross profit and gross profit margin attributable to its major products for the six months ended 30 June 2013 and the corresponding period in 2012, respectively:

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| **Product categories** | **Gross profit** | **Gross profit margin** | Gross profit | Gross profit margin |
| | **RMB'000** | **%** | RMB'000 | % |
| Cotton yarn | **260,447** | **10.9** | 246,703 | 6.7 |
| Grey fabric | **295,608** | **7.8** | 167,576 | 4.7 |
| Denim | **46,326** | **8.9** | 5,071 | 1.1 |
| Others | **–** | **–** | 5 | 1.2 |
| Total | **602,381** | **9.0** | 419,355 | 5.4 |

For the six months ended 30 June 2013, the gross profit of the Group increased by approximately 43.6% from the corresponding period of last year to approximately RMB602 million. The increase was mainly attributable to the reduction in inventory of finished products with higher unit costs by the Group in 2012, leading to a decrease in unit cost of sales for the first half of 2013, and thus the profitability was enhanced under stable average selling prices conditions. As a result, the gross profit margin of the Group increased from approximately 5.4% during the corresponding period of last year to approximately 9.0%.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Other Income and Gains

For the six months ended 30 June 2013, other income and gains of the Group were approximately RMB380 million, representing an increase of approximately 26.2% from approximately RMB301 million for the corresponding period of last year. Such increase was mainly due to the decreased coal price during the Period that reduced the unit power generation cost, thus, raising the gains from selling electricity.

For the six months ended 30 June 2013, the Group's revenue generated from the sale of electricity and steam amounted to approximately RMB1,147 million (representing a decrease of approximately 26.0% over the corresponding period of last year) and the gross profit generated was approximately RMB299 million, representing an increase of approximately 52.6% over the corresponding period of last year. Revenue generated from electricity and steam dropped as compared with the corresponding period of last year, mainly attributable to the year over year decrease in installed capacity due to the Group's disposal of its Binzhou thermal power assets in the second half of last year which resulted in lower level of power output, and to the slight increase in self-consumed electricity of the Group which resulted in less power sold. The increase in gross profits from the sale of electricity and steam was mainly due to the drop in the coal price during the Period as compared with the same period of last year.

## Selling and Distribution Expenses

For the six months ended 30 June 2013, the Group's selling and distribution expenses were approximately RMB103 million, representing a decrease of approximately 1.9% from approximately RMB105 million for the same period of last year. Among those costs, transportation cost decreased by approximately 16.9% to approximately RMB64 million from approximately RMB77 million for the same period of last year. This was mainly due to the fees for transportation resulting from lower unit price for export transportation while export sales increased and domestic sales decreased during the Period. Salary of sales staff was approximately RMB17 million, representing an increase of approximately 30.8% from approximately RMB13 million for the corresponding period of last year. The increase was due to the growth in export orders achieved by the clients of certain domestic sales staff during the Period, leading to corresponding increase in the compensation of such sales staff. Sales commission was approximately RMB6 million, which remained flat as compared with the corresponding period of last year.

## Administrative Expenses

For the six months ended 30 June 2013, the administrative expenses of the Group was approximately RMB141 million, representing an increase of approximately 19.5% from approximately RMB118 million for the corresponding period of last year. Such increase was primarily due to the Group's inclusion of the depreciation costs incurred by idle properties in the administrative expenses according to accounting standards during the Period.

## Finance Costs

For the six months ended 30 June 2013, finance costs of the Group were approximately RMB268 million, representing a decrease of approximately 17.0% from approximately RMB323 million for the corresponding period of last year, which was mainly attributable to the decrease in bank borrowings during the Period and the drop in the average borrowing rate.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity and Financial Resources

The working capital of the Group is mainly financed by cash inflow from operating activities. For the six months ended 30 June 2013, the Group recorded a net cash outflow from operating activities of approximately RMB513 million, which was mainly because the Group increased its raw material reserve of lint cotton during the Period. Net cash outflow from investing activities was approximately RMB920 million, which was mainly attributable to the efficient utilization of funds achieved by purchasing corporate wealth management products from banks by the Group during the Period (Please refer to Note 13 to the unaudited interim condensed consolidated financial statements for details of such corporate wealth management products purchased from banks). Net cash outflow from financing activities was approximately RMB1,288 million, which was mainly due to repayment of certain bank borrowings due during the Period. Cash and cash equivalents of the Group were approximately RMB4,596 million, representing a decrease of approximately 37.5% from approximately RMB7,350 million as of 31 December 2012. The Group will take effective measures to ensure adequate liquidity and financial resources to satisfy its business needs, and will continue to maintain a sound financial position.

For the six months ended 30 June 2013, the average turnover days of the Group's receivables rose to 11 days from 8 days for the same period of 2012, which was mainly due to the increase in export sales during the Period and the increase in settlement of receivables by letter of credit.

For the six months ended 30 June 2013, the inventory turnover days of the Group were 210 days, representing an increase of 30 days from 180 days for the same period of 2012. It was mainly due to the increase in the Group's reserve of raw materials as at 30 June 2013, which resulted in a corresponding increase in the inventory turnover days.

For the six months ended 30 June 2013, the Group had used financial instruments, specifically forward exchange contracts, to minimize its exposure to fluctuations of exchange rates. Such contracts were settled in May 2013, and the loss amounting to approximately RMB2 million was charged to profit or loss during the Period.

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

Net profit attributable to owners of the parent was approximately RMB266 million for the six months ended 30 June 2013, representing a significant increase of approximately 392.6% from approximately RMB54 million for the corresponding period of last year.

For the six months ended 30 June 2013, basic earnings per share of the Company were RMB0.22.

## Capital Structure

The major objective of the Group's capital management is to ensure ongoing operations and maintain a satisfactory capital ratio. The Group continued to maintain an appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 30 June 2013, the debts of the Group were mainly bank loans totaling approximately RMB7,903 million. The Group had cash and cash equivalents of approximately RMB4,596 million. The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by net assets) was approximately 21.0% (first half of 2012: approximately 34.4%).

# MANAGEMENT DISCUSSION AND ANALYSIS

Details of the outstanding bank loans as at 30 June 2013 are set out in Note 17 to the unaudited interim condensed consolidated financial statements. The Group manages its interest expenses through a fixed rate and floating rate liabilities portfolio. As at 30 June 2013, approximately 47.8% of the Group's bank loans were subject to fixed interest rates while the remaining approximately 52.2% were subject to floating interest rates.

The Group maintains a balance between the continuity and flexibility of funds through bank borrowings. At any time, the borrowings due within the upcoming 12-month period will not exceed 50.0% of the total loans. As at 30 June 2013, approximately 48.8% of the Group's loans will mature within one year.

As at 30 June 2013, the Group's loans were denominated in Renminbi and US dollars, of which borrowings in US dollars represented approximately 12.5% of the total borrowings, while cash and cash equivalents were denominated in Renminbi and US dollars, of which cash and cash equivalents denominated in US dollars represented approximately 9.9% of the total amount.

## Details of Pledged Assets of the Group

Details are set out in Note 17 to the unaudited interim condensed consolidated financial statements.

## Employees and Emolument Policies

As at 30 June 2013, the Group had a total of approximately 87,000 employees, which remained flat as compared with that of the corresponding period of last year. Total staff costs of the Group amounted to approximately RMB1,242 million during the Period, representing approximately 18.5% of the revenue, up by 4.0 percentage points as compared with approximately 14.5% in the corresponding period of last year. The increase in total staff costs was mainly due to the increase in employee remuneration with a view to maintaining the Group's stability in production and operation during the Period. Employee remuneration is determined based on performance and experience and the industry practice. The Group's remuneration policies and packages are reviewed periodically by the management of the Group. In addition, the management also grants bonuses and rewards to staff based on their performance to encourage and motivate them to engage in technology innovation and technique improvement. The Group also provide relevant trainings, such as safety training and skills training, to staff based on the technical requirements of different positions.

## Exposure to Foreign Exchange Risks

The Group adopts a strict and prudent policy in managing its exchange rate risks. Export sales and import purchases of the Group are settled in US dollars. For the six months ended 30 June 2013, approximately 49.1% of the Group's revenue and approximately 41.5% of the costs of purchase of lint cotton were denominated in US dollars. For the six months ended 30 June 2013, the Group recorded exchange loss of approximately RMB4 million for holding a large amount of balances of receivables and bank balances denominated in US Dollars due to appreciation of the Renminbi. During the Period, the Group did not experience any significant difficulties or impacts on its operations or liquidity as a result of fluctuations in currency exchange rates. The directors believe that the Group will have sufficient foreign currency to meet its requirements.

## Capital Commitments

Details are set out in Note 21 to the unaudited interim condensed consolidated financial statements.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Contingent Liabilities

As at 30 June 2013, the Group did not have any contingent liabilities.

## Taxation

The tax of the Group increased from approximately RMB46 million for the first half of 2012 to approximately RMB158 million for the first half of 2013, representing an increase of approximately 243.5%. Such increase in tax was mainly attributable to the increase in the Group's profit before tax during the Period.

## Subsequent Events

On 26 July 2013, the Company received the "Approval for the Public Issue of Corporate Bonds by Weiqiao Textile Company Limited (Zheng Jian Xu Ke [2013] No. 977)" (證監許可[2013] 977號《關於核准魏橋紡織股份有限公司公開發行公司債券的批復》) from the China Securities Regulatory Commission approving the Company to issue its corporate bonds in the People's Republic of China with an aggregate nominal value of no more than RMB6.0 billion. For details, please refer to the Company's announcement dated 26 July 2013. Up to 23 August 2013, no corporate bonds were issued.

## OUTLOOK

Looking ahead, while the global economy is still subject to uncertainties, China's textile industry is entering a stage of profound adjustments given the anticipated significant increases in the costs of labor, energy, and raw materials. Weiqiao Textile will continue to overcome challenges and seize opportunities mainly through continuously optimizing its product mix, increasing its market share of mid-end and high-end products, and enhancing products' value-added features. In response to the rising labor costs, the Company will improve the facilities' operational efficiency and increase its level of automation to reduce labor intensity (measured by workers needed per ten thousand spindles). The Company will also strategically modify the mix of imported cotton and domestic cotton to reduce raw material costs. The Company's exports to emerging markets are expected to increase as a result of optimized the structure of domestic and international trade and the development of products tailored for emerging markets. Financially, the Company will further optimize its debt structure and control its finance costs. Weiqiao Textile will continue to focus on environmental protection and sustainable development, solidify its position as an industry leader, and continue to commit to its social responsibility.

With its positive brand image, extensive operational experience and a strong balance sheet, the Group is confident that it will maintain its position as the most preferred cotton textile provider in China and the top choice for global buyers.

# SUPPLEMENTARY INFORMATION

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, so far as known to the directors, supervisors and chief executive of the Company, the following persons (other than a director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"):

Interests in the domestic shares of the Company:

| **Name of Shareholders** | **Number of Domestic Shares** *(Note 1)* | **Approximate percentage of total issued domestic share capital as at 30 June 2013** *(%)* | **Approximate percentage of total issued share capital as at 30 June 2013** *(%)* |
|---|---|---|---|
| Shandong Weiqiao Chuangye Group Company Limited ("Holding Company") | 744,937,600 (Long position) | 95.41 | 62.37 |
| Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment") | 744,937,600 (Long position) *(Note 2)* | 95.41 | 62.37 |

# SUPPLEMENTARY INFORMATION

Interests in the H Shares of the Company:

| Name of Shareholders | Type of interest | Number of H Shares *(Note 3)* | Approximate percentage of total issued H share capital as at 30 June 2013 *(%)* | Approximate percentage of total issued share capital as at 30 June 2013 *(%)* |
|---|---|---|---|---|
| Brandes Investment Partners, L.P. | Investment manager | 65,790,362 (Long position) *(Note 4)* | 15.91 | 5.51 |
| The Bank of New York Mellon Corporation | Interest of a controlled corporation | 32,617,308 (Long position) | 7.89 | 2.73 |
| | | 16,317,308 (Lending pool) *(Note 5)* | 3.95 | 1.37 |
| Mellon Financial Corporation | Interest of a controlled corporation | 41,073,100 (Long position) *(Note 6)* | 9.93 | 3.44 |
| Citigroup Inc. | Interest of corporation controlled by the substantial shareholder | 27,199,647 (Long position) | 6.57 | 2.28 |
| | | 13,024,236 (Short position) | 3.14 | 1.09 |
| | Custodian corporation/ approved lending agent | 12,609,813 (Lending pool) *(Note 7)* | 3.04 | 1.06 |

*Note 1:* *Unlisted shares.*

*Note 2:* *Weiqiao Investment holds 39% equity interests in Holding Company.*

*Note 3:* *Shares listed on the Main Board of the Stock Exchange.*

*Note 4:* *These 65,790,362 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.*

*Note 5:* *These 32,617,308 H Shares in which The Bank of New York Mellon Corporation was deemed interested under the SFO were directly held by The Bank of New York Mellon, which was a corporation 100% controlled by The Bank of New York Mellon Corporation.*

*Note 6:* *These 41,073,100 H Shares in which Mellon Financial Corporation was deemed interested under the SFO were directly held by The Boston Company Asset Management LLC, a corporation wholly controlled by MAM (MA) Trust, which is indirectly and wholly controlled by MAM (DE) Trust. MAM (DE) Trust is wholly controlled by Mellon Financial Corporation.*

*Note 7:* *These 27,199,647 H Shares (long position) and 13,024,236 shares (short position) in which Citigroup Inc. was deemed interested as the interest of corporation controlled by a substantial shareholder under the SFO were directly or indirectly held by its several subsidiaries or related companies. These 12,609,813 H Shares were held by Citigroup Inc. in its capacity as custodian corporation/approved lending agent.*

Save as disclosed above, so far as known to the directors, supervisors or chief executive of the Company, as at 30 June 2013, there was no other person (other than a director, supervisor or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO.

# SUPPLEMENTARY INFORMATION

## DIRECTORS', SUPERVISORS' OR THE COMPANY'S CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2013, the interests of the directors, supervisors or chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in the domestic shares of the Company:

| **Name of Shareholder** | **Type of Interest** | **Number of Domestic Shares** *(Note 1)* | **Approximate percentage of total issued domestic share capital** *(%)* | **Approximate percentage of total issued share capital** *(%)* |
|---|---|---|---|---|
| Zhang Hongxia *(Executive director/Chairman)* | Beneficial interests | 17,700,400 | 2.27 | 1.48 |
| Zhang Shiping *(Non-executive director)* | Beneficial interests | 5,200,000 | 0.67 | 0.44 |

*Note 1: Unlisted shares*

Interests in the shares of the Company's associated corporations (within the meaning of Part XV of the SFO) were as follows:

| **Name of Shareholders** | **Name of associated corporation** | **Type of interest** | **Approximate percentage of total issued share capital** *(%)* |
|---|---|---|---|
| Zhang Shiping *(Non-executive director)* | Holding Company | Beneficial interests | 31.59 |
| Zhang Hongxia *(Executive director)* | Holding Company | Beneficial interests and spouse interests *(Note 1)* | 9.73 *(Note 1)* |
| Zhang Yanhong *(Executive director)* | Holding Company | Beneficial interests | 5.63 |
| Zhao Suwen *(Executive director)* | Holding Company | Beneficial interests | 0.38 |
| Zhao Suhua *(Non-executive director)* | Holding Company | Beneficial interests and spouse interests *(Note 2)* | 4.93 *(Note 2)* |

*Note 1: These 112,000,000 shares of the Holding Company will be beneficially owned by Ms. Zhang Hongxia, who is taken to be interested in the 43,676,000 shares directly held by her husband, Mr. Yang Congsen, under the SFO.*

*Note 2: Ms. Zhao Suhua is taken to be interested in the 78,922,000 shares directly held by her husband, Mr. Wei Yingzhao, under the SFO.*

Save as disclosed above, as at 30 June 2013, none of the directors, supervisors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were deemed or taken to have under such provisions of the SFO); or (b) entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

# SUPPLEMENTARY INFORMATION

## INTERIM DIVIDEND

The Board of the Company did not recommend any payment of the interim dividend for the six months ended 30 June 2013.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in accordance with the requirements of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the purpose of reviewing and supervising the Group's financial reporting process. The Audit Committee is comprised of three independent non-executive directors. An audit committee meeting was convened on 23 August 2013 to review the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 and give opinions and recommendations to the Board of the Company. The Audit Committee also engaged an external auditor to review the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013.

## REMUNERATION COMMITTEE

The Company has established a remuneration committee in accordance with the corporate governance requirements of listed companies of the Hong Kong Stock Exchange. The objective of this committee is to set out and make suggestions on the appraisal standards for directors and management, and study and review remuneration policies and arrangements for directors and senior management. The remuneration committee is comprised of three directors. A remuneration committee meeting was convened on 15 March 2013, at which the resolution with regard to directors' payroll and bonus as well as supervisors' payment for the year of 2013 was passed.

## NOMINATION COMMITTEE

The Company has established a nomination committee in accordance with the corporate governance requirements of listed companies of the Hong Kong Stock Exchange. The objective of this committee is to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorship; assess the independence of independent non-executive directors of the Company; and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

# SUPPLEMENTARY INFORMATION

## CODE ON CORPORATE GOVERNANCE PRACTICES

To the best knowledge of the directors of the Company, other than the deviation stated below, the Company has complied with the provisions of the Code throughout the six-month period ended 30 June 2013.

Code provision A.2.1 requires that the roles of the chairman and the chief executive officer shall be separated and not be performed by the same individual. Currently, Ms. Zhang Hongxia is the Chairman and Chief Executive Officer of the Company. The Board is of the opinion that this arrangement will not affect the balance of powers and functions between the Board and the management. The operations of the Board are sufficient to ensure the balance of powers and functions.

Save as disclosed above, none of the directors of the Company are aware of any information which would reasonably indicate that the Company was not, or was not for any part of the Period, in compliance with the provisions of the Code.

## SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted a code for securities transactions on terms no less exacting than the required standard of the Model Code as set out in Appendix 10 to the Listing Rules. Following specific enquiry made with the directors, the Company has confirmed that each of the directors of the Company complied with the Model Code.

## DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this report is published on the websites of both the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.wqfz.com). An interim report for the six months ended 30 June 2013 containing all the applicable information required by Appendix 16 to the Listing Rules will be despatched to shareholders and published on the websites of the Stock Exchange and the Company on or before 9 September 2013.

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG
安 永

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To the Board of Directors
**Weiqiao Textile Company Limited**
*(Incorporated in the People's Republic of China with limited liability)*

## INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Weiqiao Textile Company Limited and its subsidiaries (collectively, the "Group") as at 30 June 2013, which comprise the interim consolidated statement of financial position as at 30 June 2013 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong

23 August 2013

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(UNAUDITED)*

For the six-month period ended 30 June 2013

| | Notes | **Six-month period ended 30 June 2013 (unaudited) RMB'000** | Six-month period ended 30 June 2012 (unaudited) RMB'000 |
|---|---|---|---|
| REVENUE | 4 | **6,701,708** | 7,709,186 |
| Cost of sales | | **(6,099,327)** | (7,289,831) |
| Gross profit | | **602,381** | 419,355 |
| Other income and gains | 4 | **380,319** | 301,338 |
| Selling and distribution expenses | | **(102,663)** | (104,626) |
| Administrative expenses | | **(140,964)** | (117,697) |
| Other expenses | | **(53,353)** | (79,724) |
| Finance costs | 6 | **(268,267)** | (323,489) |
| Share of profit of an associate | | **2,589** | 2,208 |
| PROFIT BEFORE TAX | 5 | **420,042** | 97,365 |
| Income tax expense | 7 | **(157,772)** | (45,609) |
| PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | | **262,270** | 51,756 |
| Attributable to: | | | |
| Owners of the parent | | **266,073** | 54,297 |
| Non-controlling interests | | **(3,803)** | (2,541) |
| | | **262,270** | 51,756 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 8 | **RMB0.22** | RMB0.05 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(UNAUDITED)*

30 June 2013

| | Notes | **30 June 2013 (unaudited) RMB'000** | 31 December 2012 (audited) RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | **12,964,047** | 13,662,949 |
| Prepaid land lease payments | | **183,534** | 185,791 |
| Other intangible assets | | **1,030** | 1,109 |
| Investment in an associate | | **72,329** | 51,067 |
| Deferred tax assets | 18 | **232,623** | 263,044 |
| Total non-current assets | | **13,453,563** | 14,163,960 |
| CURRENT ASSETS | | | |
| Inventories | 11 | **7,005,741** | 5,799,515 |
| Trade receivables | 12 | **415,225** | 548,475 |
| Due from the immediate holding company | 20 | **–** | 8,312 |
| Due from other related parties | 20 | **13,684** | – |
| Prepayments, deposits and other receivables | | **483,863** | 119,249 |
| Available-for-sale financial investments | 13 | **1,030,000** | – |
| Pledged time deposits | 14 | **210,353** | 243,598 |
| Non-pledged time deposits with original maturity over three months when acquired | 14 | **13,450** | 120,332 |
| Cash and cash equivalents | 14 | **4,596,366** | 7,349,732 |
| | | **13,768,682** | 14,189,213 |
| Non-current assets classified as held for sale | 10 | **14,936** | 20,496 |
| Total current assets | | **13,783,618** | 14,209,709 |
| CURRENT LIABILITIES | | | |
| Trade payables | 15 | **1,873,468** | 1,935,893 |
| Due to the immediate holding company | 20 | **2,137** | – |
| Due to other related parties | 20 | **–** | 5,670 |
| Other payables and accruals | 16 | **951,991** | 1,033,245 |
| Derivative financial instruments | | **–** | 3,236 |
| Interest-bearing bank and other borrowings | 17 | **3,856,788** | 4,460,927 |
| Tax payable | | **414,028** | 357,085 |
| Dividend payable | | **1,124** | – |
| Deferred income | | **38,634** | 41,538 |
| Total current liabilities | | **7,138,170** | 7,837,594 |
| NET CURRENT ASSETS | | **6,645,448** | 6,372,115 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **20,099,011** | 20,536,075 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(UNAUDITED)* (Continued)

30 June 2013

| | Notes | **30 June 2013 (unaudited) RMB'000** | 31 December 2012 (audited) RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other borrowings | 17 | **4,046,450** | 4,605,450 |
| Deferred income | | **292,116** | 282,366 |
| Deferred tax liabilities | 18 | **4,245** | 4,385 |
| Total non-current liabilities | | **4,342,811** | 4,892,201 |
| Net assets | | **15,756,200** | 15,643,874 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 19 | **1,194,389** | 1,194,389 |
| Reserves | | **14,479,325** | 14,213,252 |
| Proposed final dividend | 9 | **–** | 148,821 |
| | | **15,673,714** | 15,556,462 |
| **Non-controlling interests** | | **82,486** | 87,412 |
| Total equity | | **15,756,200** | 15,643,874 |

**Zhang Hong Xia**
*Executive Director*

**Zhao Su Wen**
*Executive Director*

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(UNAUDITED)*

For the six-month period ended 30 June 2013

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued capital RMB'000** | **Capital reserve RMB'000** | **Statutory surplus reserve RMB'000** | **Retained profits RMB'000** | **Proposed final dividend RMB'000** | **Total RMB'000** | **Non-controlling interests RMB'000** | **Total equity RMB'000** |
| As at 1 January 2013 | **1,194,389** | **6,673,380** | **1,363,444** | **6,176,428** | **148,821** | **15,556,462** | **87,412** | **15,643,874** |
| Final 2012 dividend declared | **–** | **–** | **–** | **–** | **(148,821)** | **(148,821)** | **–** | **(148,821)** |
| Dividend paid to non-controlling shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **(1,123)** | **(1,123)** |
| Total comprehensive income for the period | **–** | **–** | **–** | **266,073** | **–** | **266,073** | **(3,803)** | **262,270** |
| At 30 June 2013 (unaudited) | **1,194,389** | **6,673,380**(i) | **1,363,444**(i) | **6,442,501**(i) | **–** | **15,673,714** | **82,486** | **15,756,200** |

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained profits RMB'000 | Proposed final dividend RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| As at 1 January 2012 | 1,194,389 | 6,673,380 | 1,306,511 | 5,900,302 | 70,947 | 15,145,529 | 92,783 | 15,238,312 |
| Final 2011 dividend declared | – | – | – | – | (70,947) | (70,947) | – | (70,947) |
| Total comprehensive income for the period | – | – | – | 54,297 | – | 54,297 | (2,541) | 51,756 |
| At 30 June 2012 (unaudited) | 1,194,389 | 6,673,380(i) | 1,306,511(i) | 5,954,599(i) | – | 15,128,879 | 90,242 | 15,219,121 |

*(i) These reserve accounts comprise the consolidated reserves of RMB14,479,325,000 and RMB13,934,490,000 in the condensed consolidated statements of financial position as at 30 June 2013 and 30 June 2012, respectively.*

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(UNAUDITED)*

For the six-month period ended 30 June 2013

| | **Six-month period ended 30 June 2013 (unaudited) RMB'000** | Six-month period ended 30 June 2012 (unaudited) RMB'000 |
|---|---|---|
| Net cash (outflow)/inflow from operating activities | **(512,657)** | 1,896,977 |
| Net cash (outflow)/inflow from investing activities | **(919,549)** | 9,308 |
| Net cash outflow from financing activities | **(1,288,384)** | (181,063) |
| Net (decrease)/increase in cash and cash equivalents | **(2,720,590)** | 1,725,222 |
| Cash and cash equivalents at beginning of the period | **7,349,732** | 2,057,949 |
| Effect of foreign exchange rate changes, net | **(32,776)** | (12,073) |
| Cash and cash equivalents at end of the period | **4,596,366** | 3,771,098 |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | **4,596,366** | 3,771,098 |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)*

30 June 2013

## 1. CORPORATE INFORMATION

The registered office of Weiqiao Textile Company Limited (the "Company") is located at No. 34, Qidong Road, Weiqiao Town, Zouping County, Shandong Province, the People's Republic of China (the "PRC").

The Company and its subsidiaries (collectively, the "Group") are principally engaged in the manufacture and sale of cotton yarn, grey fabric and denim in the PRC and overseas.

In the opinion of the directors, the immediate holding company and the ultimate holding company of the Group are Shandong Weiqiao Chuangye Group Company Limited (the "Holding Company") and Shandong Weiqiao Investment Holdings Company Limited ("Weiqiao Investment"), respectively, both of which are limited liability companies established in the PRC.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2012.

### New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the adoption of the new standards, amendments and interpretations (collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants noted below:

| | |
|---|---|
| HKFRS 1 Amendments | Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* |
| HKFRS 10 | *Consolidated Financial Statements* |
| HKFRS 11 | *Joint Arrangements* |
| HKFRS 12 | *Disclosure of Interests in Other Entities* |
| HKFRS 10, HKFRS 11 and HKFRS 12 Amendments | Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* |
| HKFRS 13 | *Fair Value Measurement* |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* |
| HKAS 19 (2011) | *Employee Benefits* |
| HKAS 27 (2011) | *Separate Financial Statements* |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures* |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine* |
| *Annual improvements 2009-2011 Cycle* | Amendments to a number of HKFRSs issued in June 2012 |

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (continued)

The adoption of these HKFRSs has had no significant financial effect on these financial statements.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 3. OPERATING SEGMENT INFORMATION

The Group has only one operating segment, which is the manufacture and sale of cotton yarn, grey fabric and denim. An analysis by product for the periods ended 30 June 2013 and 2012, is as follows:

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| Cotton yarn | **2,399,996** | 3,692,032 |
| Grey fabric | **3,782,441** | 3,563,451 |
| Denim | **519,271** | 453,266 |
| Others | **–** | 437 |
| | **6,701,708** | 7,709,186 |

The geographical revenue information, based on the locations of the Group's customers, is as follows:

### Revenue from external customers

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| Mainland China | **3,414,361** | 5,777,530 |
| Hong Kong | **1,714,230** | 732,533 |
| East Asia | **566,182** | 439,477 |
| Others | **1,006,935** | 759,646 |
| | **6,701,708** | 7,709,186 |

All of the Group's assets are located in the PRC.

There is no transaction with a single external customer which arises revenue amounting to 10% or more of the Group's revenue.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of textile goods sold, after allowances for returns and trade discounts, and excludes sales taxes and intra-group transactions.

An analysis of revenue, other income and gains is as follows:

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| **Revenue** | | |
| Sale of textile goods | **6,701,708** | 7,709,186 |
| **Other income** | | |
| Bank interest income | **15,323** | 8,227 |
| Compensation from suppliers on supply of sub-standard goods and service | **21,663** | 36,052 |
| Recognition of deferred income | **18,154** | 8,298 |
| Government subsidies | **2,838** | 10,342 |
| Others | **8,593** | 26,299 |
| | **66,571** | 89,218 |
| **Gains** | | |
| Sale of electricity and steam | **1,146,581** | 1,549,804 |
| Less: Cost thereon | **(847,388)** | (1,353,406) |
| Gains on sale of electricity and steam | **299,193** | 196,398 |
| Gains on disposal of items of property, plant and equipment | **–** | 24 |
| Gains on sale of waste and spare parts | **12,920** | 15,698 |
| Gain on bargain purchase | **1,635** | – |
| | **313,748** | 212,120 |
| | **380,319** | 301,338 |

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Note | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **6,071,877** | 7,526,001 |
| Employee benefit expense (excluding directors' and supervisors' remuneration): | | | |
| Wages, salaries and other social insurance costs | | **1,157,589** | 1,046,163 |
| Pension scheme contributions | | **82,588** | 70,103 |
| | | **1,240,177** | 1,116,266 |
| Depreciation | | **670,207** | 692,124 |
| Amortisation of land lease payments | | **2,276** | 2,327 |
| Amortisation of other intangible assets | | **79** | 679 |
| Repairs and maintenance | | **147,063** | 119,575 |
| Losses on disposal of items of property, plant and equipment | | **1,157** | 2,642 |
| Losses on settlement of derivative instruments – transactions not qualifying as hedges | | **2,052** | – |
| Auditors' remuneration | | **1,600** | 1,600 |
| Directors' and supervisors' remuneration | | **2,085** | 2,174 |
| Foreign exchange differences, net | | **4,298** | 16,264 |
| Changes in provision against inventories | | **12,869** | (240,524) |
| Impairment of property, plant and equipment and non-current assets classified as held for sale | 10 | **27,243** | 52,369 |
| Bank interest income | | **(15,323)** | (8,227) |
| Recognition of deferred income | | **(18,154)** | (8,298) |
| Government subsidies | | **(2,838)** | (10,342) |
| Gain on bargain purchase | | **(1,635)** | – |
| Minimum land and building lease payments under operating leases | | **11,294** | 11,590 |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **263,969** | 307,025 |
| Foreign exchange differences, net | **4,298** | 16,264 |
| Interest on a finance lease | **–** | 200 |
| | **268,267** | 323,489 |

No interest was capitalised for the six-month period ended 30 June 2013 (six-month period ended 30 June 2012: Nil).

## 7. INCOME TAX

Except for a subsidiary in Hong Kong which is subject to profits tax at the rate of 16.5% (six-month period ended 30 June 2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the six-month period ended 30 June 2013, all other entities within the Group are subject to corporate income tax at the statutory tax rate of 25% (six-month period ended 30 June 2012: 25%).

| | Note | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|---|
| Current | | | |
| – Mainland China | | **123,238** | 26,091 |
| – Hong Kong | | **4,253** | 1,447 |
| Deferred | 18 | **30,281** | 18,071 |
| Total tax charge for the period | | **157,772** | 45,609 |

## 7. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdictions in which the Company, majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

| | **Six-month period ended 30 June 2013 RMB'000** | **%** | Six-month period ended 30 June 2012 RMB'000 | % |
|---|---|---|---|---|
| Profit before tax | **420,042** | | 97,365 | |
| Tax at PRC jurisdiction statutory tax rate | **105,011** | **25.0** | 24,341 | 25.0 |
| Effect of the different income tax rate for a Hong Kong subsidiary | **(2,191)** | **(0.5)** | (745) | (0.8) |
| Profit attributable to an associate | **(647)** | **(0.1)** | (552) | (0.6) |
| Expenses not deductible for tax | **1,000** | **0.2** | 1,379 | 1.4 |
| Tax losses not recognised | **10,855** | **2.6** | 15,813 | 16.2 |
| Derecognition of deferred tax assets recognised in previous periods | **43,718** | **10.4** | 5,369 | 5.6 |
| Others | **26** | **–** | 4 | – |
| Tax charge at the Group's effective rate | **157,772** | **37.6** | 45,609 | 46.8 |

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of RMB266,073,000 (six-month period ended 30 June 2012: RMB54,297,000), and on 1,194,389,000 (six-month period ended 30 June 2012: 1,194,389,000) ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary share in issue during those periods.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 9. DIVIDEND

The proposed final dividend for the year ended 31 December 2012 was approved by the Company's shareholders on 13 May 2013.

At the board of directors meeting held on 23 August 2013, the directors did not recommend the payment of any interim dividend to shareholders (six-month period ended 30 June 2012: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2013, the Group acquired buildings, machinery and equipment, motor vehicles and construction in progress with an aggregate cost of approximately RMB26 million (six-month period ended 30 June 2012: RMB69 million), and disposed of buildings, machinery and equipment with an aggregate net carrying value of approximately RMB16 million (six-month period ended 30 June 2012: RMB3 million).

The depreciation charge of the Group for the six-month period ended 30 June 2013 was approximately RMB670 million (six-month period ended 30 June 2012: RMB692 million).

During the six-month period ended 30 June 2013, the Group made a provision of approximately RMB21 million (six-month period ended 30 June 2012: Nil), to its property, plant and equipment and charged it into profit or loss. The provision was related to one production plant whose steel structure was damaged by corrosion and will be dismantled in the second half of year 2013.

### Non-current assets classified as held for sale

At 30 June 2013, the non-current assets held for sale were certain machinery under sales agreements entered in March 2013 and expected to be fulfilled before the end of 2013. As their fair values less costs to sale were lower than their carrying amounts, an impairment provision of approximately RMB6 million was accrued and charged to profit or loss in the six-month period ended 30 June 2013.

At 31 December 2012, the non-current assets held for sale were certain machinery under sales agreements as at 31 December 2012. These assets were sold during the reporting period.

## 11. INVENTORIES

During the six-month period ended 30 June 2013, the Group made a provision of approximately RMB13 million to its inventories and charged it into cost of sales. During the six-month period ended 30 June 2012, the Group wrote off the inventory provision of approximately RMB241 million due to the sale of the inventories.

## 12. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Within 3 months | **410,928** | 545,170 |
| 3 to 6 months | **823** | 47 |
| 6 months to 1 year | **243** | 3,219 |
| Over 1 year | **3,231** | 39 |
| | **415,225** | 548,475 |

The Group normally allows a credit period of not more than 45 days to its customers, although an extension of the credit period is not uncommon for customers who have a long term relationship with the Group. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of this and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

## 13. AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

The available-for-sale financial investments represented some corporate wealth management products purchased by the Group from a bank in June 2013. No other comprehensive income or loss was recognised for the period ended 30 June 2013, because the aggregate changes of fair value of such financial assets were immaterial since their respective acquisition dates.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 14. CASH AND CASH EQUIVALENTS

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|
| Cash and bank balances | **4,596,366** | 7,349,732 |
| Time deposits | **223,803** | 363,930 |
| | **4,820,169** | 7,713,662 |
| Less: Pledged time deposits against: | | |
| – Letters of credit | **(210,353)** | (243,598) |
| Non-pledged time deposits with original maturity over three months when acquired | **(13,450)** | (120,332) |
| Cash and cash equivalents | **4,596,366** | 7,349,732 |

## 15. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the date of transferring the significant risks and rewards of ownership of raw materials and items of property, plant and equipment to the Group, is as follows:

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|
| Within 3 months | **1,651,181** | 1,828,194 |
| 3 to 6 months | **15,492** | 2,893 |
| 6 months to 1 year | **148,826** | 13,460 |
| Over 1 year | **57,969** | 91,346 |
| | **1,873,468** | 1,935,893 |

The trade payables are non-interest-bearing and most of the balances are repayable within six months.

## 16. OTHER PAYABLES AND ACCRUALS

| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Payroll payable | **228,794** | 210,262 |
| Other taxes payable | **60,040** | 186,526 |
| Accruals | **16,677** | 19,840 |
| Other payables | **646,480** | 616,617 |
| | **951,991** | 1,033,245 |

Other payables are non-interest-bearing. Some of these balances normally have a term of one month while some have no specific payment term.

## 17. INTEREST-BEARING BANK AND OTHER BORROWINGS

Set out below is the information relating to the Group's bank loans as at 30 June 2013:

(i) Other than certain of the bank loans in the aggregate amount of US$160 million, equivalent to RMB986 million, as at 30 June 2013 (31 December 2012: US$174 million, equivalent to RMB1,091 million), all of the Group's bank loans are denominated in Renminbi.

(ii) Certain of the Group's bank loans amounting to approximately RMB5,147 million (31 December 2012: RMB5,703 million) were secured by certain of the Group's buildings, machinery and equipment and land use rights (prepaid land lease payments) of an aggregate value of approximately RMB2,874 million as at 30 June 2013 (31 December 2012: RMB2,961 million).

(iii) Certain of the Group's bank loans amounting to RMB459 million (31 December 2012: RMB463 million) were secured by certain trade receivables of Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park") and Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") from the Company of RMB596 million as at 30 June 2013 (31 December 2012: RMB594 million), which were eliminated in the condensed consolidated statement of financial position.

(iv) None of the Group's bank loans (31 December 2012: RMB169 million) was secured by certain of Binzhou Industrial Park's sales orders from the Company as at 30 June 2013 (31 December 2012: RMB254 million).

(v) None of bank loans of Weihai Weiqiao Textile Company Limited ("Weihai Weiqiao"), was guaranteed by Weihai Civil Aviation Industrial Company Limited, the non-controlling shareholder of Weihai Weiqiao as at 30 June 2013 (31 December 2012: RMB19 million).

(vi) The Company guaranteed bank loans of Weihai Industrial Park of approximately RMB260 million as at 30 June 2013 (31 December 2012: The Company guaranteed bank loans of Weihai Industrial Park and Weihai Weiqiao of approximately RMB587 million).

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 18. DEFERRED TAX

The movements in the deferred tax assets and liabilities are as follows:

| | Note | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|---|
| **Deferred tax assets** | | | |
| At 1 January | | **263,044** | 259,281 |
| Charged to profit or loss during the period | | **(30,421)** | (18,211) |
| At 30 June | | **232,623** | 241,070 |
| **Deferred tax liabilities** | | | |
| At 1 January | | **4,385** | 4,663 |
| Credited to profit or loss during the period | | **(140)** | (140) |
| At 30 June | | **4,245** | 4,523 |
| Deferred tax charged to profit or loss | 7 | **30,281** | (18,071) |

## 18. DEFERRED TAX (continued)

The principal components of the Group's deferred tax are as follows:

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax deductible loss | **–** | 43,718 |
| Provision against inventories | **108,332** | 105,115 |
| Impairment of trade receivables | **398** | 398 |
| Impairment of property, plant and equipment | **19,017** | 12,268 |
| Government grants recognised as deferred income | **82,687** | 80,976 |
| Government grants not recognised as deferred income | **1,503** | – |
| Interest capitalisation on fixed assets, net of related depreciation | **(5,030)** | (5,203) |
| Difference in depreciation arising from different residual value of fixed assets recognised for tax and accounting purposes | **10,116** | 9,113 |
| Unrealised gains arising from intra-group sales | **15,600** | 16,659 |
| | **232,623** | 263,044 |
| **Deferred tax liabilities** | | |
| Interest capitalisation on fixed assets, net of related depreciation | **4,245** | 4,385 |
| | **4,245** | 4,385 |

Deferred tax assets were not recognised in respect of tax losses of RMB409 million (31 December 2012: RMB191 million), as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 19. SHARE CAPITAL

| Shares | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Registered, issued and fully paid: | | |
| 780,770,000 domestic ordinary shares of RMB1.00 each | **780,770** | 780,770 |
| 413,619,000 H shares of RMB1.00 each | **413,619** | 413,619 |
| | **1,194,389** | 1,194,389 |

The Company does not have any share option scheme.

## 20. RELATED PARTY TRANSACTIONS

The Group is part of a larger group of companies under Weiqiao Investment and has extensive transactions and relationships with the members of Weiqiao Investment. As such, it is possible that the terms of these transactions are not the same as those of the transactions among unrelated parties. The transactions were made on terms agreed between the parties.

The Group had the following transactions with related parties during the period:

### (a) Transactions with related parties

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| The immediate holding company: | | |
| Sales of textile products | **35,679** | 151,537 |
| Sales of electricity | **925,996** | 945,370 |
| Expenses on land use rights and property leasing | **10,565** | 10,860 |
| Sales of textile products to fellow subsidiaries | **194,542** | 529,005 |

## 20. RELATED PARTY TRANSACTIONS (continued)

### (b) Outstanding balances with related parties

| | Due from related parties | | Due to related parties | |
|---|---|---|---|---|
| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
| The Holding Company | **–** | 8,312 | **2,137** | – |
| Fellow subsidiaries | **13,684** | – | **–** | 5,670 |

The balances with the immediate holding company and other related parties are unsecured, interest-free and usually have a repayment term of one month.

### (c) Commitments with related parties

At the end of the reporting period, the Group entered into sales agreements with certain fellow subsidiaries with commitment amounting to RMB32,026,000 (31 December 2012: RMB15,250,000), which are expected to be fulfilled before the end of 2013.

### (d) Compensation of key management personnel of the Group

| | **Six-month period ended 30 June 2013 RMB'000** | Six-month period ended 30 June 2012 RMB'000 |
|---|---|---|
| Short term employee benefits | **2,052** | 2,155 |
| Post-employment benefits | **33** | 19 |
| Total compensation paid to key management personnel | **2,085** | 2,174 |

## 21. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments, principally for an equity investment and the purchase of machinery:

| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Contracted, but not provided for | **52,100** | 54,900 |

# NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(UNAUDITED)* (Continued)

30 June 2013

## 22. OPERATING LEASE ARRANGEMENTS

As lessee, the Group leases certain of its land and properties under operating lease arrangements, with leases negotiated for terms ranging from three to twenty years.

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2013 RMB'000** | 31 December 2012 RMB'000 |
|---|---|---|
| Within one year | **22,589** | 22,042 |
| In the second to fifth years, inclusive | **88,913** | 87,958 |
| After five years | **160,756** | 171,653 |
| | **272,258** | 281,653 |

## 23. EVENTS AFTER THE REPORTING PERIOD

On 26 July 2013, the Company received the "Approval for the Public Issue of Corporate Bonds by Weiqiao Textile Company Limited (Zheng Jian Xu Ke [2013] No. 977)" (證監許可[2013] 977號《關於核准魏橋紡織股份有限公司公開發行公司債券的批復》) from the China Securities Regulatory Commission approving the Company to issue its corporate bonds in the PRC with an aggregate nominal value of no more than RMB6.0 billion. Up to 23 August 2013, no corporate bonds were issued.

## 24. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 23 August 2013.