



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

Interim Report  
2014



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# Summary

Interim results for the six months ended 30 June 2014

- 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.

# 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  
Chen Shuwen  
Chan Wing Yau, George

## SUPERVISORS

Lu Tianfu  
Wang Wei  
Wang Xiaoyun

## COMPANY SECRETARY

Zhang Jinglei

## AUDIT COMMITTEE

Chan Wing Yau, George (*Chairman*)  
Wang Naixin  
Chen Shuwen

## REMUNERATION COMMITTEE

Wang Naixin (*Chairman*)  
Zhang Hongxia  
Chen Shuwen

## NOMINATION COMMITTEE

Zhang Hongxia (*Chairman*)  
Wang Naixin  
Chen Shuwen

## 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

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wanchai  
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## COMPANY WEBSITE

[www.wqfz.com](http://www.wqfz.com)

## STOCK CODE

2698

## INVESTOR RELATIONS

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## IR & PR CONSULTANT

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# Chairman's Statement

It is my pleasure to present on behalf of the board (the "Board") of directors (the "directors") 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 2014 (the "Period" or "Period under Review").

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 minimise raw material inventory while ensuring production needs, increasing the pressures over the upstream companies to some extent.

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.

# Chairman's Statement

Despite the complicated business environment, the Group is confident that its sound sales channels, optimised product mix and sufficient capital reserves will ensure stable operations and enable the Group to seize opportunities to expand its market share.

Looking ahead, the Board believes overseas market demand will continue to recover modestly during the second half of 2014. Domestically, China's economy will maintain growth momentum under the PRC government's target-specific "micro stimulus" packages aimed at "stabilizing growth and upgrading structure to improve well-being." In addition, in accordance with the Circular on Trial Implementation of Measures for Assessment and Deduction of Input Value-added Tax on Agricultural Products in Some Industries (Cai Shui [2012] No. 38) and the Circular on Expanding the Scope of Industries Covered by the Pilot Program of Assessment and Deduction of Input Value-added Tax on Agricultural Products (Cai Shui [2013] No. 57) promulgated jointly by the Ministry of Finance and the State Administration of Taxation, the general Value-added Tax ("VAT") taxpayers with the purchased agricultural products as raw materials of cotton yarns, shall be listed into the trial implementation of assessment and deduction of input VAT on agricultural products. Currently, provinces such as Anhui and Zhejiang issued specific implementation rules. The implementation of these measures will effectively solve the problem of inconsistency between the input tax deduction rate and the output tax levy rate for VAT that has been plaguing the Chinese cotton textile companies, whose tax burden would be reduced, and is expected to have positive impacts on Chinese textile companies.

Looking ahead, the subsidy policy is expected to become a sustained impact on cotton prices and the largest variable to the cotton textile industry in the PRC that can influence market price expectations and farmers' willingness to plant. However, China's reinstated market-oriented mechanisms are expected to result in narrower price gap between domestic and overseas cotton prices and the Chinese cotton textile companies will regain their competitiveness in the international market in the long run. The Group will keep a close eye on the variables and optimise our procurement policies and production schedules.

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.

On behalf of the management of Weiqiao Textile, I would like to express my gratitude to our shareholders for their unwavering support of the Group. It is your trust and support, together with the efforts of our staff that enable the Group 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. In view of the favorable market-oriented cotton prices boded by the national policy adjustment, the Group is confident that its advantages in technology, cost, scale and customer base will provide a strong footing for further enhancing its competitive edge in domestic and international markets and securing its industry-leading position to maximise the return to shareholders.

*Chairman*  
**Zhang Hongxia**

Shandong, People's Republic of China  
22 August 2014

# Management Discussion and Analysis

## INDUSTRY REVIEW

Global economic growth has been gradually picking up with an increasingly solid recovery being seen in developed nations since the beginning of 2014. Growth in emerging economies remained sluggish, however, with the rate of growth in global trade decelerating. During the Period under Review, a slowdown in the overall interim results of China's textile industry was caused by a fall in textile product prices when compared to the same period of last year, despite moderate growth in exports and a narrowing price gap between domestic and overseas cotton prices.

During the Period, the overall domestic market remained stable. According to the figures released by the National Bureau of Statistics of the PRC, total investment in textile industry fixed asset projects above a designated size amounted to RMB454.48 billion in the first half of 2014, representing an increase of approximately 16.1% year-on-year or an increase of 1.1 percentage points from the corresponding period of 2013.

According to statistics released by the General Administration of Customs of the PRC, in the first half of 2014, China's textile exports amounted to approximately US\$53.3 billion, representing an increase of approximately 4.2% year-on-year or a decrease of 5.9 percentage points from the approximately 10.1% growth rate for the corresponding period of 2013. During the Period, China's exports of textile and apparel products to the following countries and regions are as follows:

- United States: approximately US\$19.4 billion, representing an increase of approximately 6.9% from the corresponding period last year, while the growth rate increased by approximately 1.9 percentage points.
- Japan: approximately US\$11.1 billion, representing a decrease of approximately 8.4%.
- Hong Kong: approximately US\$7.7 billion, representing a decrease of approximately 17.8%.
- European Union: approximately US\$26.1 billion, representing an increase of approximately 18.5% from the corresponding period of last year, while the growth rate increased by approximately 15.5 percentage points.
- Vietnam: US\$6.9 billion, representing an increase of approximately 16.6% from the corresponding period of last year, while the growth rate decreased by approximately 39.1 percentage points.

During the Period, the amount of export of Chinese textile and apparel products to ASEAN, the Middle East and Africa markets increased by approximately 3.2%, 1.7% and 7.6% respectively.

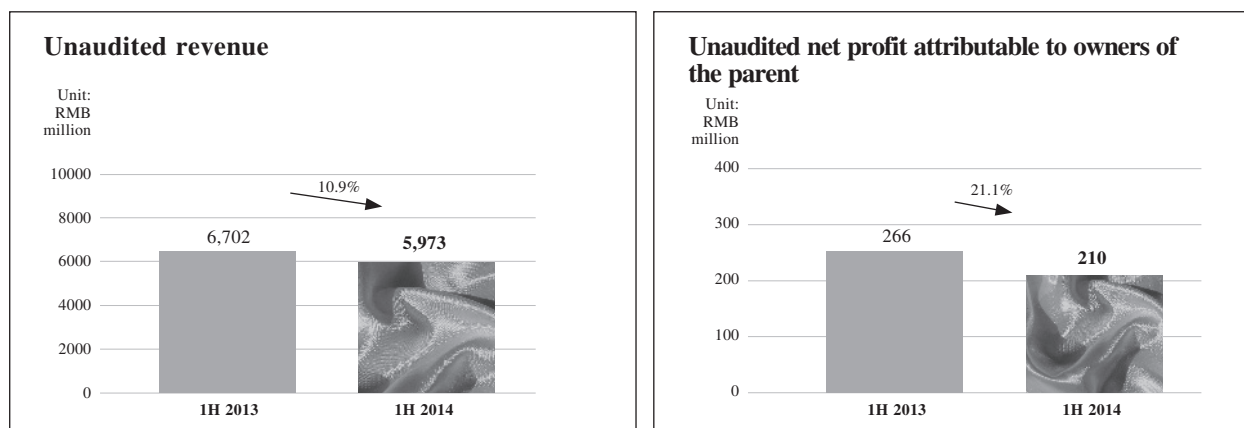
According to the Cotton A Index, the average price for cotton in China during the Period was approximately RMB19,379 per ton, representing a decrease of approximately 3.7% year-on-year. The average global market price for cotton, according to the Cotlook A Index, was approximately 93.34 US cents per pound, an increase of approximately 2.2% year-on-year. The price gap between domestic and overseas cotton has narrowed, which enabled Chinese textile enterprises to slightly regain their international competitiveness.

# Management Discussion and Analysis

## 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.

For the six months ended 30 June 2014, 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 2013, are as follows:

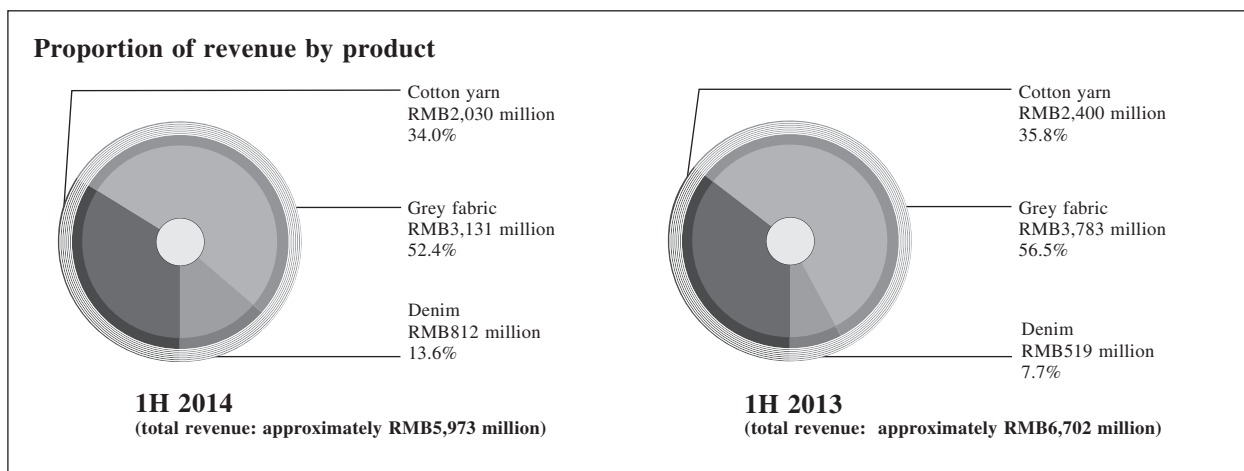


For the six months ended 30 June 2014, the Group recorded revenue of approximately RMB5,973 million, representing a decrease of approximately 10.9% from the corresponding period of 2013, while net profit attributable to owners of the parent amounted to approximately RMB210 million, representing a decrease of approximately 21.1% year-on-year. The decrease in the Group's revenue and net profit attributable to owners of the parent for the Period was primarily attributable to the 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 reduce demand in both domestic and overseas markets. A decrease in the Group's sales volume of cotton yarn and grey fabric accordingly impacted revenue along with a decline in product prices, thus reducing the Group's overall revenue and net profit year-on-year.



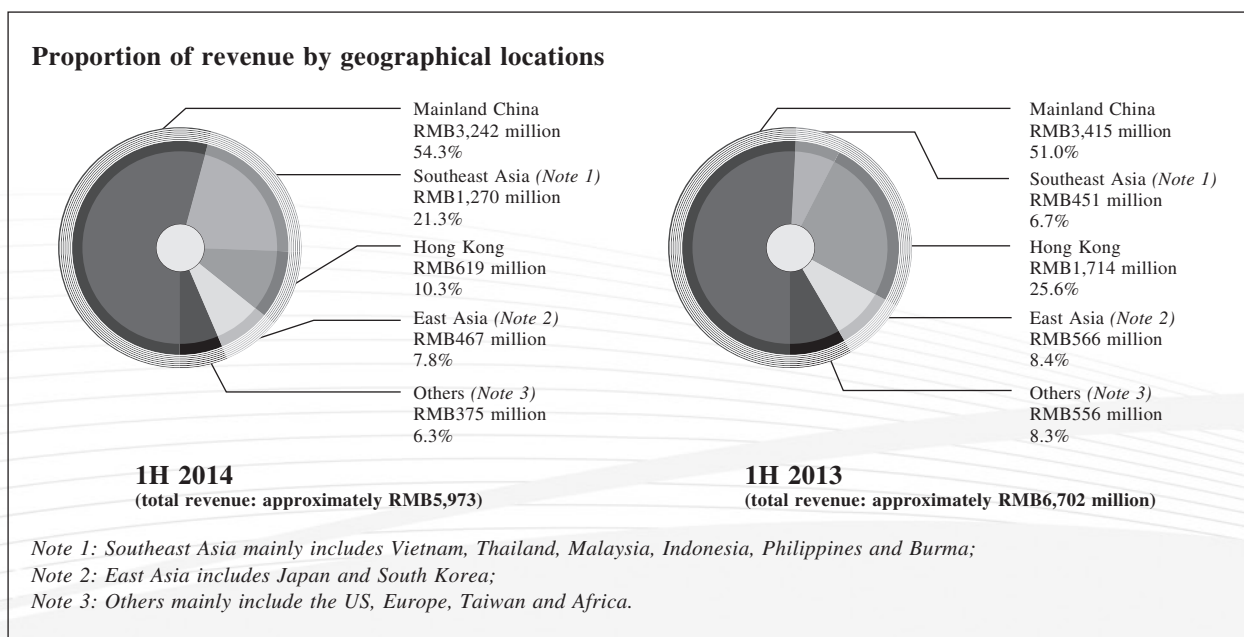
# Management Discussion and Analysis

The charts below are a comparison of the breakdown of revenue by products for the six months ended 30 June 2014 and the corresponding period of 2013, respectively:



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 sales 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.

The following charts show the geographic breakdown of revenue for the six months ended 30 June 2014 and the corresponding period of 2013:



# Management Discussion and Analysis

For the six months ended 30 June 2014, under the circumstance of slow recovery in global economy and sluggish market demand at home and abroad, the Group took initiatives in adjusting product mix and expanding to both domestic and overseas markets, maintaining a relative stable balance of domestic and overseas markets. During the Period, the percentage of the Group's overseas revenue was approximately 45.7%, while the percentage of domestic revenue was approximately 54.3%.

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.

As one of the world's largest cotton textile manufacturers, Weiqiao Textile will focus on further expanding its market share by producing more high value-added and middle to high-end products, improving internal management, strengthening cost controls, accelerating technological upgrades, and enhancing product quality and operating efficiency. By leveraging its reputable brand image, extensive operating experience and solid financial position, the Group is confident that it can maintain and strengthen its position as the most preferred supplier for 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 2014 and the corresponding period in 2013, respectively:

Product categories	For the six months ended 30 June			
	2014		2013	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Cotton yarn	77,490	3.8	260,447	10.9
Grey fabric	250,338	8.0	295,608	7.8
Denim	178,012	21.9	46,326	8.9
Total	505,840	8.5	602,381	9.0

# Management Discussion and Analysis

For the six months ended 30 June 2014, the gross profit of the Group decreased by approximately 15.9% from the corresponding period of last year to approximately RMB506 million. The decrease was primarily attributable to the slow recovery of the global economy, the downside expectations for cotton prices and the rich wait-and-see atmosphere in the downstream textile manufacturing enterprises with reduced demand and intensified competition in the textile market domestically and abroad, resulting in a decrease in revenue of the Group. The gross profit margins of the Group was approximately 8.5%, representing a decrease of approximately 0.5 percentage point over the corresponding period of last year, mainly due to the decrease in gross profit as a result of decline in the selling price of the Group's products caused by market demands during the Period.

## Other Income and Gains

For the six months ended 30 June 2014, other income and gains of the Group were approximately RMB397 million, representing an increase of approximately 4.5% from approximately RMB380 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 of the Group, thus, raising the gains from selling electricity and steam.

For the six months ended 30 June 2014, the Group's revenue generated from the sale of electricity and steam amounted to approximately RMB1,060 million, representing a decrease of approximately 7.6% over the corresponding period of last year, and the gross profit generated was approximately RMB342 million, representing an increase of approximately 14.4% over the corresponding period of last year. Sales generated from electricity and steam dropped as compared with the corresponding period of last year, mainly attributable to the decrease in the external sales volume as a result of decrease in electricity generated due to the facilitating maintenance during the Period. The increase in gross profits from the sale of electricity and steam was mainly due to the year-on-year drop in the coal price and a decline in unit generating cost during the Period.

## 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.

# Management Discussion and Analysis

## 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.

## 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 2014, the Group recorded a net cash inflow from operating activities of approximately RMB967 million, which was mainly due to the year over year decrease in the imported cotton during the Period, leading to a decline in the payment thereof. Net cash inflow from investing activities was approximately RMB14 million. Net cash outflow from financing activities was approximately RMB1,599 million, which was mainly due to repayment of certain bank borrowings during the Period. Cash and cash equivalents of the Group were approximately RMB9,588 million, representing a decrease of approximately 6.1% from approximately RMB10,211 million as of 31 December 2013. 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 2014, the average turnover days of the Group's receivables was 12 days, which remained flat as compared with the corresponding period of 2013.

For the six months ended 30 June 2014, the inventory turnover days of the Group were 200 days, representing a decrease of 10 days from 210 days for the same period of 2013. It was mainly due to the decrease in the Group's inventory of raw materials as at 30 June 2014.

For the six months ended 30 June 2014, the Group had not used financial derivative instruments. In the same period of last year, the Group had used financial instruments, specifically forward currency contract, to minimise its exposure to fluctuation of exchange rates. The contract was settled in May 2013.

## 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.

# Management Discussion and Analysis

## 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 2014, the debts of the Group were mainly bank loans totaling approximately RMB6,057 million (31 December 2013: approximately RMB7,455 million) and corporate bonds amounting to approximately RMB2,974 (31 December 2013: approximately RMB2,972 million). The Group had cash and cash equivalents of approximately RMB9,588 million (31 December 2013: approximately RMB10,211 million). The gearing ratio (net debt (interest-bearing bank and other borrowings after deducting cash and cash equivalents) divided by net assets) was approximately -3.5% (31 December 2013: approximately 1.3%).

Details of the outstanding bank loans as at 30 June 2014 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 2014, approximately 42.4% of the Group's bank loans were subject to fixed interest rates while the remaining approximately 57.6% were subject to floating interest rates.

The Group maintains a balance between the continuity and flexibility of funds through bank borrowings and corporate bonds. 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 2014, approximately 31.2% of the Group's borrowings will mature within one year.

As at 30 June 2014, the Group's borrowings were denominated in Renminbi and US dollars, of which borrowings in US dollars represented approximately 4.1% 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 1.7% 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 2014, the Group had a total of approximately 83,000 employees, which decreased by approximately 4,000 employees as compared with that of the corresponding period of last year. Such decrease of employees was mainly a normal employee turnover. Total staff costs of the Group amounted to approximately RMB1,397 million during the Period, representing approximately 23.4% of the revenue, up by 4.9 percentage points as compared with approximately 18.5% 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.

# Management Discussion and Analysis

## 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 2014, approximately 45.7% of the Group's revenue and approximately 27.0% of the costs of purchase of lint cotton were denominated in US dollars. For the six months ended 30 June 2014, the Group recorded exchange loss of approximately RMB12 million due to depreciation 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.

## Contingent Liabilities

As at 30 June 2014, the Group did not have any contingent liabilities.

## Taxation

The tax of the Group decreased from approximately RMB158 million for the first half of 2013 to approximately RMB93 million for the first half of 2014, representing a decrease of approximately 41.1%. Such decrease in tax was mainly attributable to the decline in the Group's profit before tax during the Period.

## OUTLOOK

Looking ahead, the gradual recovery of the global economy and an improving global economic situation will benefit overseas demand for China's products significantly. The domestic economy has showed signs of a stable and positive development, thanks to a series of "micro stimulus" policies implemented by the Chinese government beginning in April 2014 which have shown positive initial results, and leading to deeper reforms which are providing an impetus for economic growth. The implementation of a direct subsidy policy as well as the stabilisation and marketisation of cotton prices are expected to reduce the price gap between domestic and overseas cotton prices during the second half of 2014. This will enhance the competitiveness of domestic textile companies to a certain degree. In view of this, Weiqiao Textile will continue to adjust its product mix according to its clients' needs, increase the market share of middle to high-end products, enhance its products' added-value, source cotton globally, and improve cost controls in-line with changes in the market for raw textile materials. The Group will invest in technology R&D to reduce labour usage (measured by workers needed per ten thousand spindles) and production costs. Focuses will also be placed on reducing the gearing ratio, financial costs and solvency risks to further enhance the Group's capacity to cope with risk. Weiqiao Textile will continue to focus on environmental protection and sustainable development, to be an industry leader in terms of industry standards and to undertake its social responsibility.

By leveraging its positive brand image, extensive operational experience and solid financial position, the Group is confident that it can improve its core competitiveness, seize strategic opportunities arising from changes in the industry, and maintain and reinforce its position as the preferred supplier for international cotton textile buyers both in China and across the globe.

# Supplementary Information

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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 of Hong Kong Limited (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 (“Domestic Shares”):

<b>Name of Shareholders</b>	<b>Number of Domestic Shares</b> <i>(Note 1)</i>	<b>Approximate percentage of total issued domestic share capital as at 30 June 2014</b> <i>(%)</i>	<b>Approximate percentage of total issued share capital as at 30 June 2014</b> <i>(%)</i>
Shandong Weiqiao Chuangye Group Company Limited (“Holding Company”)	757,869,600 (Long position)	97.06	63.45
Shandong Weiqiao Investment Holdings Company Limited (“Weiqiao Investment”)	757,869,600 (Long position) <i>(Note 2)</i>	97.06	63.45

# 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 2014	Approximate percentage of total issued share capital as at 30 June 2014
			(%)	(%)
Brandes Investment Partners, L.P.	Investment manager	91,317,862 (Long position) (Note 4)	22.08	7.65
Mellon Financial Corporation	Interest of a controlled corporation	41,073,100 (Long position) (Note 5)	9.93	3.44
Citigroup Inc.	Interest of corporation controlled by the substantial shareholder	24,774,184 (Long position)	5.98	2.07
		10,392,818 (Short position)	2.51	0.87
	Custodian corporation/ approved lending agent	13,418,356 (Lending pool) (Note 6)	3.24	1.12

Notes:

1. Unlisted shares.
2. Weiqiao Investment holds 39% equity interests in Holding Company.
3. Shares listed on the Main Board of the Stock Exchange.
4. These 91,317,862 H Shares were held by Brandes Investment Partners, L.P. in its capacity as investment manager.
5. 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.
6. These 24,774,184 H Shares (long position) and 10,392,818 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 13,418,356 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 2014, 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 2014, 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 as at 30 June 2014 (%)	Approximate percentage of total issued share capital as at 30 June 2014 (%)
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

# Supplementary Information

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 as at 30 June 2014 (%)
Zhang Shiping ( <i>Non-executive director</i> )	Holding Company	Beneficial interests	31.59
Zhang Hongxia ( <i>Executive director</i> )	Holding Company	Beneficial interests and spouse interests ( <i>Note 1</i> )	9.73 ( <i>Note 1</i> )
Zhang Yanhong ( <i>Executive director</i> )	Holding Company	Beneficial interests	5.63
Zhao Suwen ( <i>Executive director</i> )	Holding Company	Beneficial interests	0.38
Zhao Suhua ( <i>Non-executive director</i> )	Holding Company	Spouse interests ( <i>Note 2</i> )	4.93 ( <i>Note 2</i> )

*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 2014, 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.

## INTERIM DIVIDEND

The Board of the Company did not recommend any payment of the interim dividend for the six months ended 30 June 2014.

## 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 2014.

## 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 22 August 2014 to review the unaudited interim condensed consolidated financial statements for the six months ended 30 June 2014 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 2014.

# Supplementary Information

## 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 21 March 2014, at which the resolution with regard to directors' payroll and bonus as well as supervisors' payment for the year of 2014 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.

## 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 2014.

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 during the six months ended 30 June 2014.

## 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 2014 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 12 September 2014.

# Report on Review of Interim Condensed Consolidated Financial Statements



To the Board of Directors

**Weiqiao Textile Company Limited**

*(Incorporated in the People's Republic of China with limited liability)*

22/F CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong  
Phone: (852) 2846 9888  
Fax: (852) 2868 4432  
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## INTRODUCTION

We have reviewed the accompanying interim condensed consolidated statement of financial position of Weiqiao Textile Company Limited and its subsidiaries (collectively, the “Group”) as of 30 June 2014 and the related interim condensed consolidated statements of profit or loss and other 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 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 and, consequently, 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

22 August 2014

# Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income *(UNAUDITED)*

For the six months ended 30 June 2014

	Notes	For the six months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
REVENUE	5	5,972,734	6,701,708
Cost of sales		<u>(5,466,894)</u>	<u>(6,099,327)</u>
Gross profit		505,840	602,381
Other income and gains	5	397,100	380,319
Selling and distribution expenses		(79,860)	(102,663)
Administrative expenses		(137,597)	(140,964)
Other expenses		(59,470)	(53,353)
Finance costs	7	(331,529)	(268,267)
Share of profit of an associate		<u>6,995</u>	<u>2,589</u>
PROFIT BEFORE TAX	6	301,479	420,042
Income tax expense	8	<u>(92,759)</u>	<u>(157,772)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>208,720</u>	<u>262,270</u>
Attributable to:			
Owners of the parent		210,134	266,073
Non-controlling interests		<u>(1,414)</u>	<u>(3,803)</u>
		<u>208,720</u>	<u>262,270</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	<u>RMB0.18</u>	<u>RMB0.22</u>

# Condensed Consolidated Statement of Financial Position *(UNAUDITED)*

30 June 2014

		<b>30 June 2014</b>	31 December 2013
		<b>(Unaudited)</b>	(Audited)
	Notes	<b>RMB'000</b>	RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	<b>11,676,045</b>	12,330,360
Investment property		<b>26,441</b>	–
Prepaid land lease payments		<b>178,938</b>	181,220
Other intangible assets		<b>872</b>	950
Investment in an associate		<b>75,982</b>	74,014
Deferred tax assets	18	<b>198,885</b>	212,542
<b>Total non-current assets</b>		<b>12,157,163</b>	12,799,086
<b>CURRENT ASSETS</b>			
Inventories	12	<b>5,996,988</b>	6,439,476
Trade receivables	13	<b>385,931</b>	547,228
Prepayments, deposits and other receivables		<b>87,216</b>	155,362
Due from the immediate holding company		–	12,203
Due from other related parties		<b>129</b>	–
Pledged time deposits	14	<b>75,560</b>	141,963
Non-pledged time deposits with original maturity over three months when acquired	14	<b>40,000</b>	–
Cash and cash equivalents	14	<b>9,587,524</b>	10,210,689
		<b>16,173,348</b>	17,506,921
Non-current assets classified as held for sale	11	–	4,455
<b>Total current assets</b>		<b>16,173,348</b>	17,511,376
<b>CURRENT LIABILITIES</b>			
Trade payables	15	<b>1,373,523</b>	2,049,803
Due to immediate holding company		<b>533</b>	–
Due to other related parties		<b>4,847</b>	5,686
Other payables and accruals	16	<b>1,058,035</b>	944,931
Interest-bearing bank and other borrowings	17	<b>2,815,444</b>	3,708,361
Tax payable		<b>449,926</b>	460,337
Deferred income		<b>30,047</b>	40,267
<b>Total current liabilities</b>		<b>5,732,355</b>	7,209,385
<b>NET CURRENT ASSETS</b>		<b>10,440,993</b>	10,301,991
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>22,598,156</b>	23,101,077

# Condensed Consolidated Statement of Financial Position *(UNAUDITED) (Continued)*

30 June 2014

	Notes	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings	17	<b>6,215,744</b>	6,718,071
Deferred income		<b>265,907</b>	277,051
Deferred tax liabilities	18	<b>3,967</b>	4,107
Total non-current liabilities		<b>6,485,618</b>	6,999,229
Net assets		<b>16,112,538</b>	16,101,848
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital	19	<b>1,194,389</b>	1,194,389
Reserves		<b>14,845,428</b>	14,635,294
Proposed final dividend		<b>–</b>	198,030
		<b>16,039,817</b>	16,027,713
<b>Non-controlling interests</b>		<b>72,721</b>	74,135
Total equity		<b>16,112,538</b>	16,101,848

**Zhang Hong Xia**  
*Executive Director*

**Zhao Su Wen**  
*Executive Director*

# Condensed Consolidated Statement of Changes in Equity (UNAUDITED)

For the six months ended 30 June 2014

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital reserve	Statutory surplus reserve	Retained profits	Proposed final dividend	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2014	1,194,389	6,664,645	1,426,691	6,543,958	198,030	16,027,713	74,135	16,101,848
Final 2013 dividend declared	-	-	-	-	(198,030)	(198,030)	-	(198,030)
Total comprehensive income for the period	-	-	-	210,134	-	210,134	(1,414)	208,720
At 30 June 2014 (unaudited)	<u>1,194,389</u>	<u>6,664,645<sup>(i)</sup></u>	<u>1,426,691<sup>(i)</sup></u>	<u>6,754,092<sup>(i)</sup></u>	<u>-</u>	<u>16,039,817</u>	<u>72,721</u>	<u>16,112,538</u>

	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Capital reserve	Statutory surplus reserve	Retained profits	Proposed final dividend	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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)	<u>1,194,389</u>	<u>6,673,380</u>	<u>1,363,444</u>	<u>6,442,501</u>	<u>-</u>	<u>15,673,714</u>	<u>82,486</u>	<u>15,756,200</u>

(i) These reserve accounts comprise the consolidated reserves of RMB14,845,428,000 in the condensed consolidated statement of financial position as at 30 June 2014.



# Condensed Consolidated Statement of Cash Flows (UNAUDITED)

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014	2013
	(Unaudited) RMB'000	(Unaudited) RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	301,479	420,042
Adjustments for:		
Finance costs	331,529	268,267
Share of profit of an associate	(6,995)	(2,589)
Bank interest income	(16,321)	(15,323)
Interest income from available-for-sale financial investments	–	(530)
Recognition of deferred income	(21,364)	(18,154)
Income from leasing an investment property	(400)	–
Loss on disposal of items of property, plant and equipment	1,804	1,157
Loss on derivative financial instruments – transactions not qualifying as hedges	–	2,052
Gain on bargain purchase	–	(1,635)
Impairment of property, plant and equipment and non-current assets classified as held for sale	–	27,243
Changes in provision against inventories	(52,263)	12,869
Recognition of prepaid land lease payments	2,285	2,276
Depreciation	664,230	670,207
Amortisation of other intangible assets	79	79
	<b>1,204,063</b>	<b>1,365,961</b>
Decrease/(increase) in inventories	494,751	(1,219,095)
Decrease in trade receivables	164,164	127,594
Decrease/(increase) in prepayments, deposits and other receivables	8,203	(106,522)
Decrease in an amount due from the immediate holding company	12,203	8,312
Increase in amounts due from other related parties	(129)	(19,354)
(Decrease)/increase in trade payables	(685,701)	5,560
Increase in an amount due to the immediate holding company	533	2,137
Decrease in amounts due to other related parties	(839)	–
Increase/(decrease) in other payables and accruals	73,455	(341,492)
Cash generated from/(used in) operations	<b>1,270,703</b>	<b>(176,899)</b>
Interest paid	(214,185)	(265,210)
Hong Kong profits tax paid	(9,835)	–
PRC corporate income tax paid	(79,819)	(70,548)
Net cash flows from/(used in) operating activities	<b>966,864</b>	<b>(512,657)</b>

# Condensed Consolidated Statement of Cash Flows *(UNAUDITED)*

*(Continued)*

For the six months ended 30 June 2014

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	<b>18,469</b>	16,994
Purchases of items of property, plant and equipment	<b>(42,648)</b>	(102,337)
Purchase of available-for-sale investments	–	(1,030,000)
Income from leasing an investment property	<b>400</b>	–
Receipt of government grants	–	25,000
Proceeds from disposal of items of property, plant and equipment	<b>6,586</b>	35,954
Dividends received from an associate	<b>5,027</b>	–
Disposal of derivative financial instruments	–	(5,288)
(Increase)/decrease in non-pledged time deposits with original maturity over three months when acquired	<b>(40,000)</b>	106,882
Decrease in pledged time deposits	<b>66,403</b>	33,246
	<hr/>	<hr/>
Net cash flows from/(used in) investing activities	<b>14,237</b>	(919,549)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New bank loans	<b>2,290,500</b>	3,022,525
Repayment of bank loans	<b>(3,691,696)</b>	(4,162,088)
Dividends paid to owners of the parent	<b>(198,030)</b>	(148,821)
	<hr/>	<hr/>
Net cash flows used in financing activities	<b>(1,599,226)</b>	(1,288,384)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		
	<b>(618,125)</b>	(2,720,590)
Cash and cash equivalents at beginning of the period	<b>10,210,689</b>	7,349,732
Effect of foreign exchange rate changes, net	<b>(5,040)</b>	(32,776)
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD</b>	<b>9,587,524</b>	4,596,366
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>9,587,524</b>	4,596,366
	<hr/>	<hr/>
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows	<b>9,587,524</b>	4,596,366
	<hr/>	<hr/>

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED)

30 June 2014

## 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 CHANGES IN ACCOUNTING POLICIES

### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 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 as at 31 December 2013.

### New standards, interpretations and amendments 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 2013, except for the adoption of the new standards and interpretations (collectively referred to as “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants and effective as of 1 January of 2014 noted below:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments:</i> <i>Recognition and Measurement – Novation of Derivatives and Continuation of</i> <i>Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

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.

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 3. CHANGE IN ACCOUNTING ESTIMATES

The Group has changed the useful lives of the production plants with steel structure from 40 years to 20 years since January 2014, after considering their physical conditions. The effect of this change of accounting estimate is recognised prospectively according to HKAS 8 and the profit before tax for the six months ended 30 June 2014 was reduced by RMB5 million.

## 4. 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 six months ended 30 June 2014 and 2013 respectively is as follows:

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Cotton yarn	2,029,798	2,399,996
Grey fabric	3,130,757	3,782,441
Denim	812,179	519,271
	<u>5,972,734</u>	<u>6,701,708</u>

### Geographical information

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

### Revenue from external customers

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Mainland China	3,242,041	3,414,361
Southeast Asia	1,269,660	450,855
Hong Kong	618,495	1,714,230
East Asia	467,350	566,182
Others	375,188	556,080
	<u>5,972,734</u>	<u>6,701,708</u>

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

### Information about major customers

No revenue from transactions with a single customer accounted for 10% or more of the Group's revenue.

# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## 5. 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:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
<b>Revenue</b>		
Sale of textile goods	<u>5,972,734</u>	<u>6,701,708</u>
<b>Other income</b>		
Recognition of deferred income	21,364	18,154
Bank interest income	16,321	15,323
Compensation from suppliers on supply of sub-standard goods and service	8,801	21,663
Government subsidies	1,354	2,838
Others	<u>7,738</u>	<u>8,593</u>
	<u>55,578</u>	<u>66,571</u>
<b>Gains</b>		
Sale of electricity and steam	1,060,359	1,146,581
Less: Cost thereon	<u>(718,837)</u>	<u>(847,388)</u>
Gains on sale of electricity and steam	341,522	299,193
Gains on sale of waste and spare parts	–	12,920
Gain on bargain purchase	<u>–</u>	<u>1,635</u>
	<u>341,522</u>	<u>313,748</u>
	<u>397,100</u>	<u>380,319</u>

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Cost of inventories sold	6,140,506	6,071,877
Employee benefit expense (excluding directors' and supervisors' remuneration):		
Wages, salaries and other social insurance costs	1,297,896	1,157,589
Pension scheme contributions	96,639	82,588
	<u>1,394,535</u>	<u>1,240,177</u>
Depreciation	664,230	670,207
Recognition of prepaid land lease payments	2,285	2,276
Amortisation of other intangible assets	79	79
Impairment of property, plant and equipment and non-current assets classified as held for sale	–	27,243
Changes in provision against inventories	(52,263)	12,869
Loss on sale of waste and spare parts	47,028	–
Loss on disposal of items of property, plant and equipment	1,804	1,157
Loss on derivative instruments – transactions not qualifying as hedges	–	2,052
Gain on bargain purchase	–	(1,635)
Auditors' remuneration	1,716	1,600
Directors' and supervisors' remuneration	2,025	2,085
Foreign exchange differences, net	12,157	4,298
Recognition of deferred income	(21,364)	(18,154)
Bank interest income	(16,321)	(15,323)
Government subsidies	(1,354)	(2,838)
Repairs and maintenance	153,202	147,063
Minimum land and building lease payments under operating leases	11,544	11,294

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	211,773	263,969
Interest on a corporate bond	107,599	–
Foreign exchange differences, net	12,157	4,298
	<u>331,529</u>	<u>268,267</u>

No interest was capitalised for the six months ended 30 June 2014 (the six months ended 30 June 2013: Nil).

## 8. INCOME TAX

Except for a subsidiary in Hong Kong which is subject to profits tax at the rate of 16.5% (the six months ended 30 June 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the six months ended 30 June 2014, all other entities within the Group are subject to corporate income tax at the statutory tax rate of 25% (the six months ended 30 June 2013: 25%).

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current		
– Mainland China	79,080	123,238
– Hong Kong	162	4,253
Deferred ( <i>note 18</i> )	13,517	30,281
	<u>92,759</u>	<u>157,772</u>
Total tax charge for the period		

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 8. INCOME TAX (continued)

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

	For the six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
Profit before tax	<u>301,479</u>		<u>420,042</u>	
Tax at PRC jurisdiction statutory tax rate	75,370	25.0	105,011	25.0
Effect of the different income tax rate for a Hong Kong subsidiary	(84)	–	(2,191)	(0.5)
Profit attributable to an associate	(1,749)	(0.6)	(647)	(0.1)
Expenses not deductible for tax	3,365	1.1	1,000	0.2
Tax losses not recognised	15,860	5.3	10,855	2.6
Derecognition of deferred tax assets recognised in previous periods	–	–	43,718	10.4
Others	<u>(3)</u>	<u>–</u>	<u>26</u>	<u>–</u>
Tax charge at the Group's effective rate	<u>92,759</u>	<u>30.8</u>	<u>157,772</u>	<u>37.6</u>

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

The calculation of basic earnings per share amounts is based on the profit for the six months ended 30 June 2014 attributable to ordinary equity holders of the parent of RMB210,134,000 (the six months ended 30 June 2013: RMB266,073,000), and the weighted average number of ordinary shares of 1,194,389,000 (the six months ended 30 June 2013: 1,194,389,000) ordinary shares in issue during the six months ended 30 June 2014.

No adjustment has been made to the basic earnings per share amounts presented for the six-month periods ended 30 June 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.



# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## **10. DIVIDEND**

The proposed final dividend for the year ended 31 December 2013 was approved by the Company's shareholders on 27 May 2014.

At the board of directors meeting held on 22 August 2014, the directors did not recommend the payment of any interim dividend to shareholders (the six months ended 30 June 2013: Nil).

## **11. PROPERTY, PLANT AND EQUIPMENT**

During the six months ended 30 June 2014, the Group acquired buildings, machinery and equipment, motor vehicles and construction in progress with an aggregate cost of approximately RMB40 million (the six months ended 30 June 2013: RMB26 million), and disposed of buildings, machinery and equipment with an aggregate net carrying value of approximately RMB4 million (the six months ended 30 June 2013: RMB16 million).

The depreciation charge of the Group for the six months ended 30 June 2014 was approximately RMB664 million (the six months ended 30 June 2013: RMB670 million).

No impairment of property, plant and equipment was charged to profit or loss by the Group during the six months ended 30 June 2014 (the six months ended 30 June 2013: RMB21 million).

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

At 31 December 2013, the non-current assets held for sale were certain machinery under sales agreements, and these assets were sold during the six months ended 30 June 2014.

## **12. INVENTORIES**

During the six months ended 30 June 2014, the Group wrote off the inventory provision of approximately RMB52 million due to the sale of the inventories. During the six months ended 30 June 2013, the Group made a provision of approximately RMB13 million for its inventories and charged it to cost of sales.

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 13. 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:

	<b>30 June 2014</b>	31 December 2013
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>361,869</b>	528,417
3 to 6 months	<b>2,654</b>	16,522
6 months to 1 year	<b>21,058</b>	107
Over 1 year	<b>350</b>	2,182
	<b>385,931</b>	547,228

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.

## 14. CASH AND CASH EQUIVALENTS

	<b>30 June 2014</b>	31 December 2013
	<b>RMB'000</b>	RMB'000
Cash and bank balances	<b>9,587,524</b>	10,210,689
Time deposits	<b>115,560</b>	141,963
	<b>9,703,084</b>	10,352,652
Less: Pledged time deposits against:		
– Letters of credit	<b>(75,560)</b>	(141,963)
Non-pledged time deposits with original maturity over three months when acquired	<b>(40,000)</b>	–
Cash and cash equivalents	<b>9,587,524</b>	10,210,689

# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## 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:

	<b>30 June 2014</b>	31 December 2013
	<b>RMB'000</b>	RMB'000
Within 3 months	<b>1,154,886</b>	1,653,926
3 to 6 months	<b>3,289</b>	183,623
6 months to 1 year	<b>6,283</b>	19,122
Over 1 year	<b>209,065</b>	193,132
	<b><u>1,373,523</u></b>	<u>2,049,803</u>

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

## 16. OTHER PAYABLES AND ACCRUALS

	<b>30 June 2014</b>	31 December 2013
	<b>RMB'000</b>	RMB'000
Payroll payable	<b>227,185</b>	233,283
Other taxes payable	<b>54,538</b>	40,862
Accruals	<b>165,378</b>	64,889
Other payables	<b>610,934</b>	605,897
	<b><u>1,058,035</u></b>	<u>944,931</u>

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

# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## **17. INTEREST-BEARING BANK AND OTHER BORROWINGS**

Set out below is the information relating to the Group's bank and other borrowings as at 30 June 2014:

- (i) Other than certain of the bank loans in the aggregate amount of US\$60 million, equivalent to RMB369 million, as at 30 June 2014 (31 December 2013: US\$60 million, equivalent to RMB366 million), all of the Group's bank loans are denominated in Renminbi.
- (ii) Certain of the Group's bank loans amounting to approximately RMB3,987 million (31 December 2013: RMB4,706 million) were secured by certain of the Group's buildings, machinery and equipment of an aggregate carrying value of approximately RMB2,343 million as at 30 June 2014 (31 December 2013: RMB2,694 million).
- (iii) Certain of the Group's bank loans amounting to approximately RMB479 million (31 December 2013: RMB517 million) were secured by certain trade receivables of Weihai Weiqiao Technology Industrial Park Company Limited ("Weihai Industrial Park") and Binzhou Weiqiao Technology Industrial Park Company Limited ("Binzhou Industrial Park") from the Company of approximately RMB648 million as at 30 June 2014 (31 December 2013: RMB709 million), which were eliminated in the condensed consolidated statement of financial position.
- (iv) The Company guaranteed bank loans of Weihai Industrial Park of approximately RMB474 million as at 30 June 2014 (31 December 2013: RMB352 million).
- (v) In October 2013, the Company issued a domestic corporate bond in an aggregate principal amount of RMB3 billion with a nominal interest rate of 7.00% per annum and denomination and issue price of RMB100. The domestic corporate bond is with periods of five years and the Company has the right to raise the nominal interest rate, and meanwhile, the investor could sell back at the end of the third year. Subsequent to the completion of the issue of the corporate bond, on 6 November 2013, the corporate bond was listed on the Shanghai Stock Exchange.

# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## 18. DEFERRED TAX

The movements in the deferred tax assets and liabilities during the six months ended 30 June 2014 and 2013 are as follows:

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
<b>Deferred tax assets</b>		
At 1 January	212,542	263,044
Charged to profit or loss during the period	<u>(13,657)</u>	<u>(30,421)</u>
At 30 June	<u>198,885</u>	<u>232,623</u>
<b>Deferred tax liabilities</b>		
At 1 January	4,107	4,385
Credited to profit or loss during the period	<u>(140)</u>	<u>(140)</u>
At 30 June	<u>3,967</u>	<u>4,245</u>
Deferred tax charged to profit or loss ( <i>note 8</i> )	<u>(13,517)</u>	<u>(30,281)</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 18. DEFERRED TAX (continued)

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
<b>Deferred tax assets</b>		
Tax deductible loss	5,623	–
Provision against inventories	91,222	104,287
Impairment of trade receivables	197	398
Impairment of property, plant and equipment and an investment property	14,699	16,973
Government grants recognised as deferred income	73,988	79,330
Government grants not recognised as deferred income	125	125
Interest capitalisation on fixed assets, net of related depreciation	(4,685)	(4,858)
Difference in depreciation arising from a different residual value of fixed assets recognised for tax and accounting purposes	12,413	11,238
Unrealised gains arising from intra-group sales	5,303	5,049
	<u>198,885</u>	<u>212,542</u>
<b>Deferred tax liabilities</b>		
Interest capitalisation on fixed assets, net of related depreciation	3,967	4,107
	<u>3,967</u>	<u>4,107</u>

The Group has tax losses arising in Mainland China of RMB414 million (31 December 2013: RMB328 million) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of tax losses of RMB391 million (31 December 2013: RMB328 million), as they have arisen in subsidiaries that have been loss-making for some time and 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 2014

## 19. SHARE CAPITAL

Shares	30 June 2014 RMB'000	31 December 2013 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
	<u>1,194,389</u>	<u>1,194,389</u>

The Company does not have any share option scheme.

## 20. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment property under an operating lease arrangement, with the lease negotiated for a term of six years.

At the end of the reporting period, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year	800	–
In the second to fifth years, inclusive	3,200	–
After five years	400	–
	<u>4,400</u>	<u>–</u>

### (b) 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 total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year	23,089	23,089
In the second to fifth years, inclusive	88,827	89,611
After five years	138,781	149,678
	<u>250,697</u>	<u>262,378</u>

# Notes to Interim Condensed Consolidated Financial Statements (UNAUDITED) (Continued)

30 June 2014

## 21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20(b) above, the Group had the following capital commitments at the end of the reporting period, principally for the purchase of machinery and an equity investment:

	<b>30 June 2014</b>	31 December 2013
	<b>RMB'000</b>	RMB'000
Contracted, but not provided for	<u><b>176,011</b></u>	<u>200,705</u>

## 22. 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

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
The immediate holding company:		
Sales of textile products	<b>131,581</b>	35,679
Sales of electricity	<b>869,012</b>	925,996
Rental income	<b>400</b>	–
Expenses on land use rights and property leasing	<b>10,565</b>	10,565
Sales of textile products to fellow subsidiaries	<b>656,086</b>	194,542

### (b) Outstanding balances with related parties

	<b>Due from related parties</b>		<b>Due to related parties</b>	
	<b>30 June</b>	31 December	<b>30 June</b>	31 December
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
The Holding Company	–	12,203	<b>533</b>	–
Fellow subsidiaries	<b>129</b>	–	<b>4,847</b>	5,686

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



# Notes to Interim Condensed Consolidated Financial Statements *(UNAUDITED) (Continued)*

30 June 2014

## 22. RELATED PARTY TRANSACTIONS *(continued)*

### (c) Commitments with related parties

At the end of the reporting period, in addition to the lease agreements, the Group entered into several sales agreements with certain fellow subsidiaries with commitments amounting to RMB7,944,000 (31 December 2013: RMB28,735,000), which are expected to be fulfilled before the end of 2014.

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

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Short term employee benefits	1,991	2,052
Post-employment benefits	34	33
Total compensation paid to key management personnel	<u>2,025</u>	<u>2,085</u>

The related party transactions mentioned above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

## 23. EVENTS AFTER THE REPORTING PERIOD

No significant event has taken place subsequent to 30 June 2014.

## 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 22 August 2014.