

Weiqiao Textile Company Limited

2008 Interim Results Presentation

16 September 2008



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Agenda

- **Financial Review**
- **Industry and Market Analysis**
- **Business Review**
- **Strategies and Objectives**





Financial Review



Financial Review

(RMB million)	1H2007	1H2008	Change (%)
Revenue	9,267	8,888	-4.1
Gross profit	1,514	676	-55.4
Gross profit margin (%)	16.3	7.6	-8.7 ppts
Operating profit margin(%)	15.4	7.2	-8.2 ppts
Profit before tax	1,055	272	-74.2
Net profit attributable to equity holders of the Company	670	273	-59.3
Basic earnings per share (RMB)	0.56	0.23	-58.9
Net profit margin(%)	7.2	3.1	-4.1 ppts



Financial Review

(RMB million)	1H2007	1H2008
Total assets	27,313	26,298
Total liabilities	15,045	13,155
Net assets value	12,268	13,143
Current ratio (times)	1.2	1.1
Account receivable turnover (days)	22	21
Inventory turnover (days)	72	82
Account payable turnover (days)	38	47
Net debt to equity ratio (%)	48	55
Gearing ratio (%)	55	50



Cost Analysis

(RMB million)	1H2007	1H2008	Change (%)
Cost of sales	7,753	8,212	+5.9
Selling and distribution cost	200	184	-8.0
Administrative expenses	81	99	+22.2
Other expenses	23	50	+117.4
Finance costs	373	367	-1.6



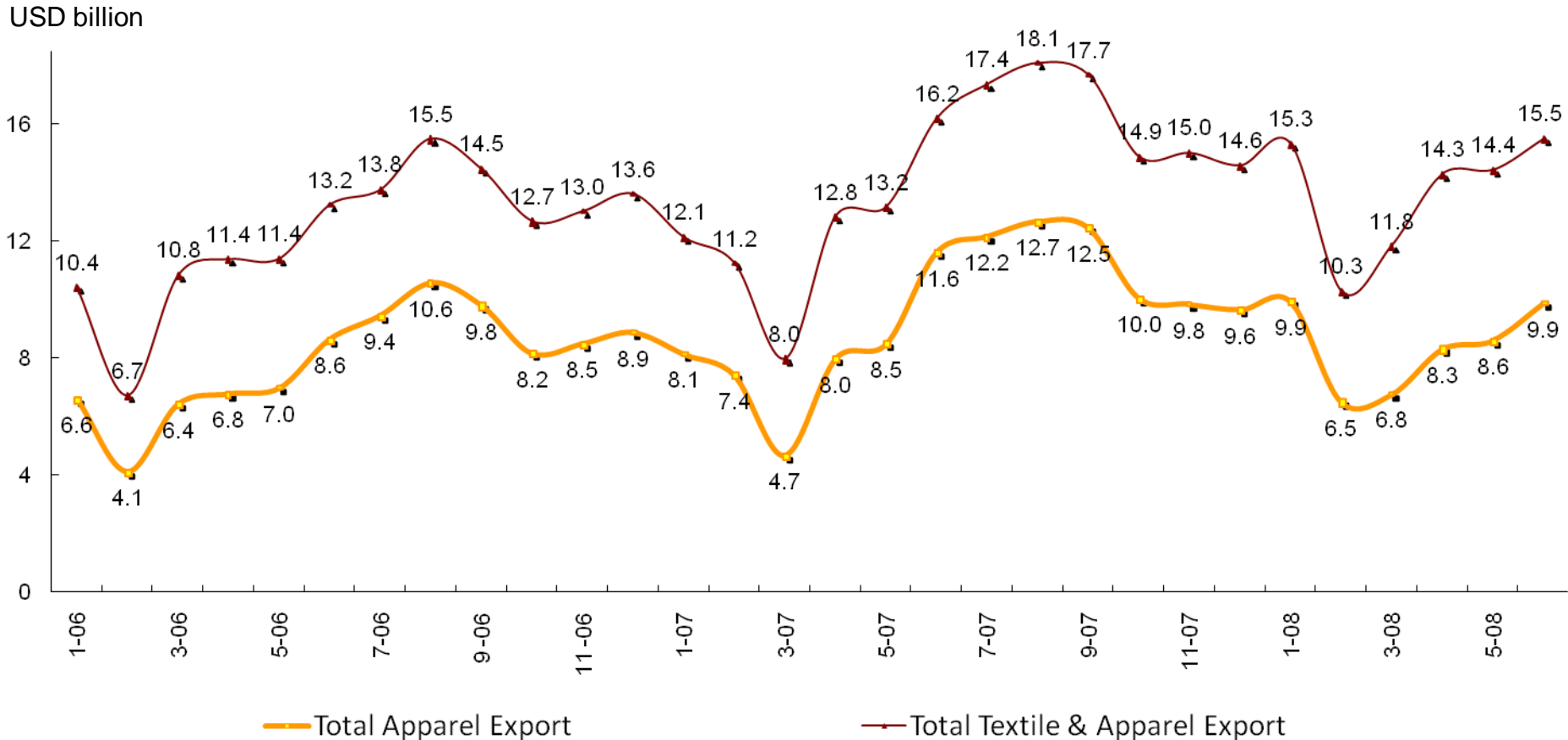


Industry and Market Analysis



Textile & Apparel Export: Slowed Growth

Textile and Apparel Exports from Jan 2006 to Jun 2008



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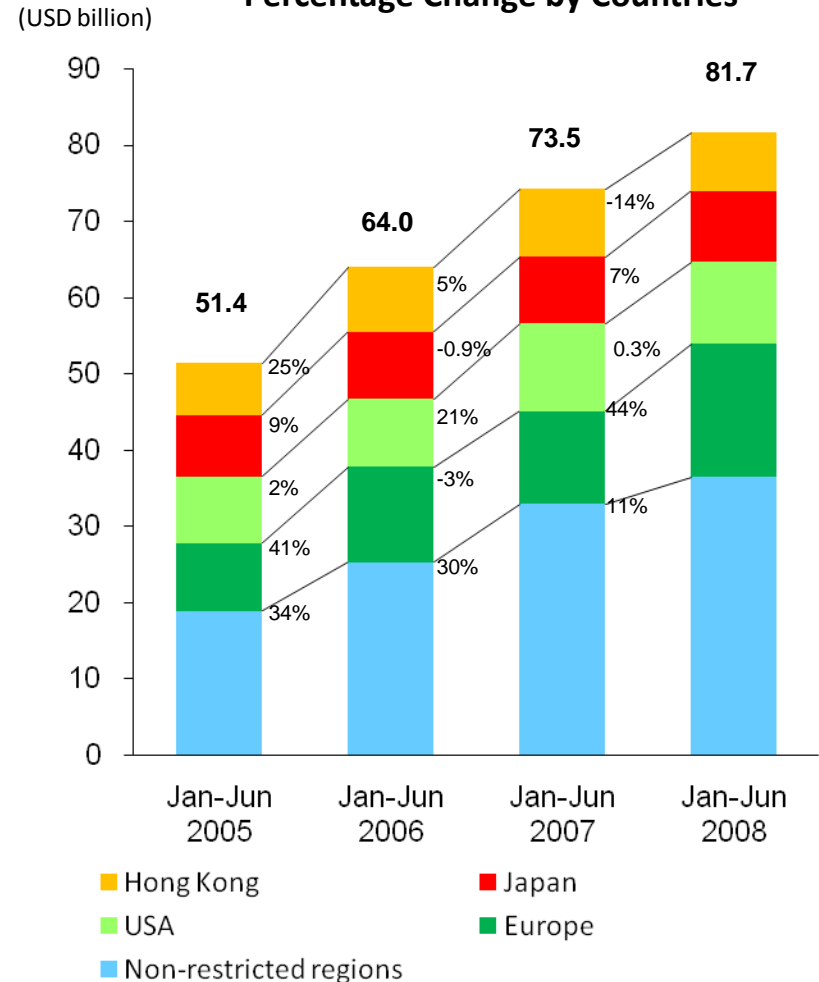
Source: China Customs, TTEB.com



Textile & Apparel Export: Slowed Growth (con't)

- In 2008, US applied safeguard on textile and apparel imports from China, average volume growth rate set was 13.34% compared to 2007
- “China-EU Textile Trade Memorandum of Understanding” took effect on 1 January 2008, safeguard on textiles and apparel exports to EU was cancelled
- Exports to European countries have been strong but are expected to be moderate as the exchange rate of RMB/Euro continues to appreciate

Value of China's Textile/Apparel Exports and Percentage Change by Countries

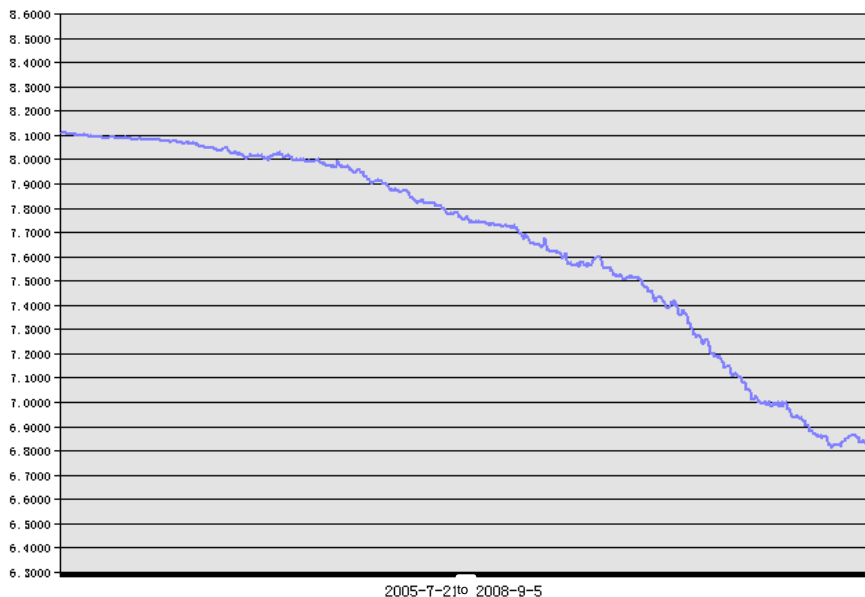


Source: China Customs, National Bureau of Statistics of China



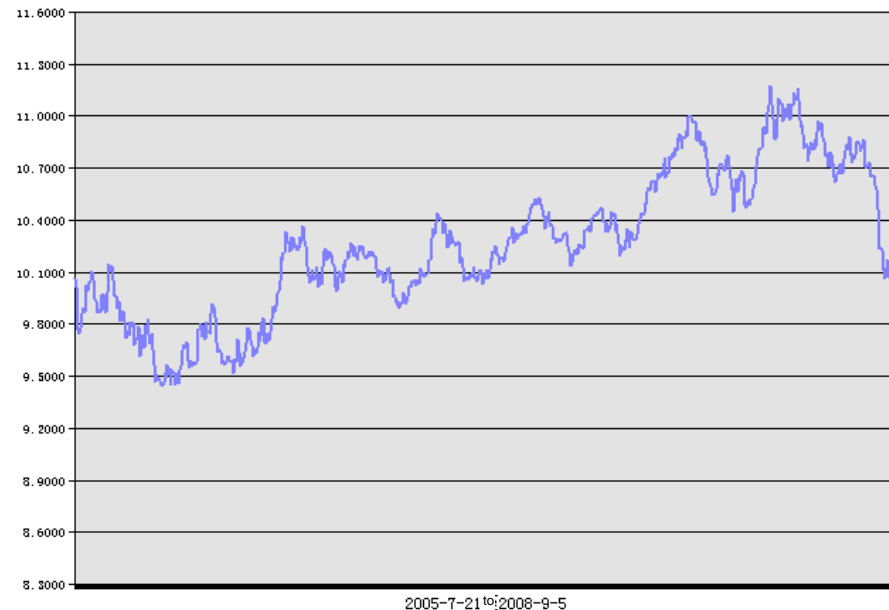
Strong RMB Brings Pressure on Exports

2005.7 – 2008.9 RMB against US Dollar



- Appreciation of RMB has been continuing. It broke US\$1 versus RMB7 in May and reached US\$1 versus RMB6.86 as at the end of 1H2008. At the end of August, daily average rate was US\$1 versus RMB6.83
- In 1H2008, the exchange rate of RMB versus US dollar increased 6.5%, growth rate in 2007 was 6.8%

2005.7 – 2008.9 RMB against the Euro

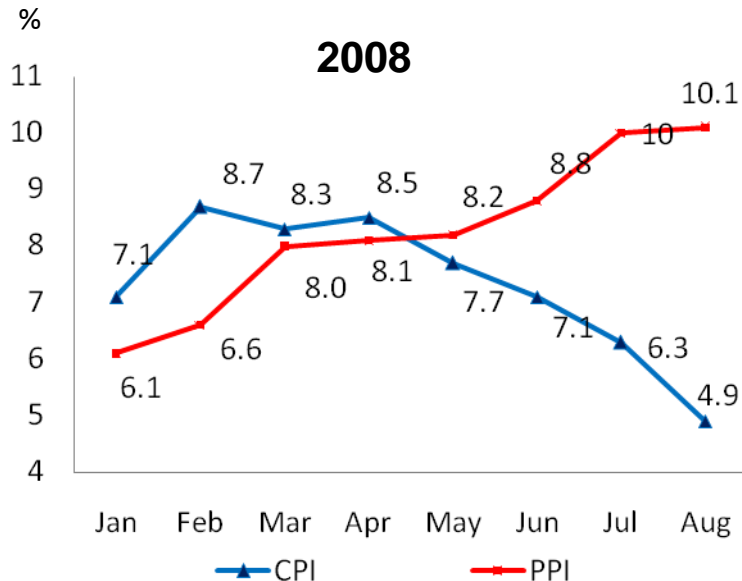
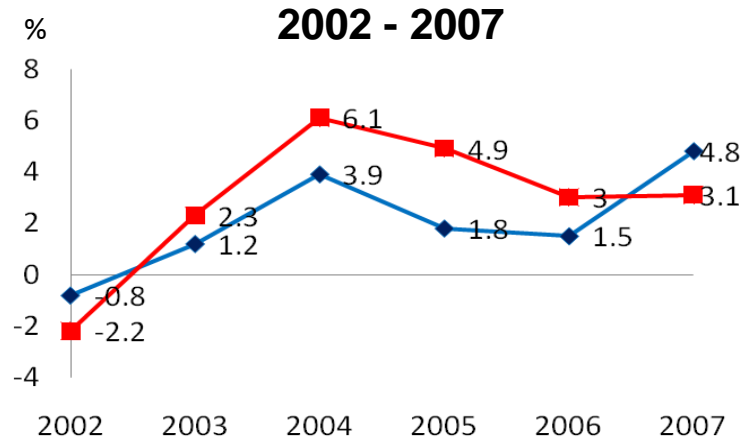


- Appreciation of RMB versus Euro up recently. In August, exchange rate up 6%. At the end of August, daily average rate was Euro 1 versus RMB 10.0522
- On 2 September, daily average exchange rate exceeded the level of Euro1 versus RMB10
- Strong RMB will impact exports to EU substantially

Source: The People's Bank of China



Strong PPI Trend versus CPI while Electricity Price Continues to Grow



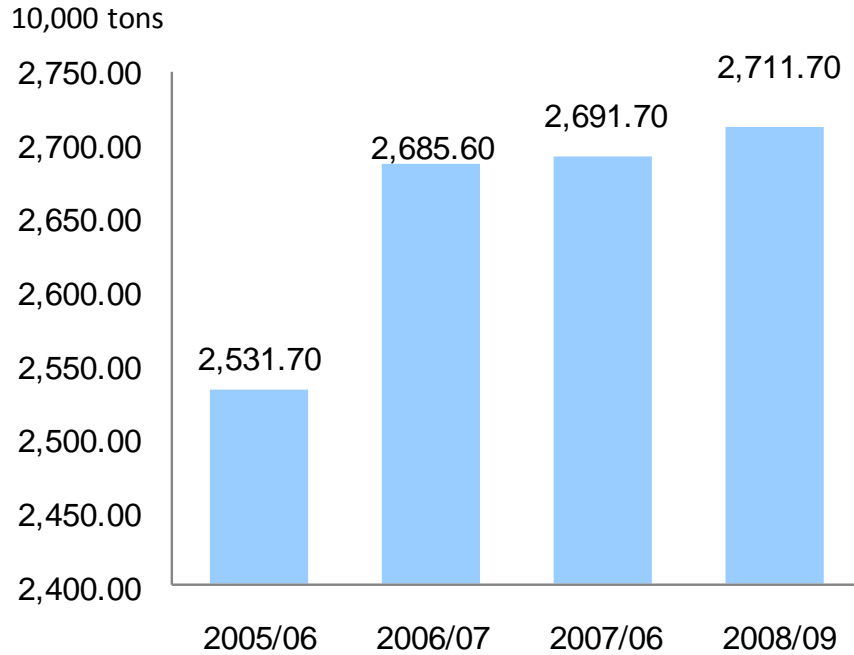
- Price of thermal coal continues to increase: price of coal doubled in 1H2008. For instance, price of ordinary mixed coal increased from RMB350/tons in early 2008 to RMB600/tons in late June. Rise in thermal coal price led to the increase of Company's electricity cost
- Purchasing and selling prices of electricity increased: In 2007, the average selling price of electricity of power grid enterprises in the country was RMB 514.07/MWh, an increase of 2.94% YoY, in which the average selling price of electricity in Shandong was RMB504.51/MWh, an increased of 5.45% YoY. During the peak season, electricity price experienced an increase of 70%
- Since 1 July 2008, the selling price of electricity in the country rose 4.7%, an average of RMB0.025 will be added for every kwh
- Increase in electricity price further accelerated the upward trend of PPI

	State grid corporation	Southern power grid companies	Inner Mongolia power companies	Total
Purchasing price of power grid (RMB/MWh)	343.62	381.38	251.99	347.36
Selling price of electricity (RMB/MWh)	501.49	568.07	337.44	514.07

Source: National Bureau of Statistics of China, SERC



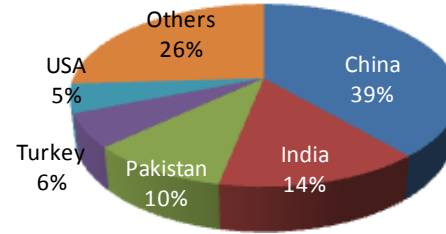
Increasing Demand on Cotton



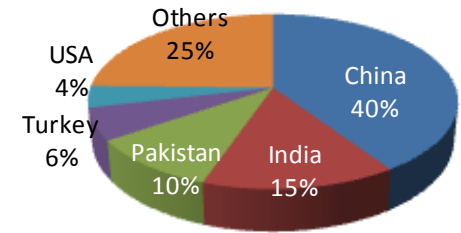
■ Cotton consumption in the world

Breakdown of World's Cotton Consumption

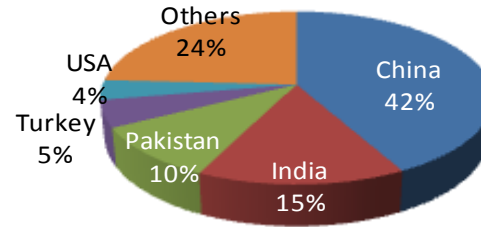
2005/06



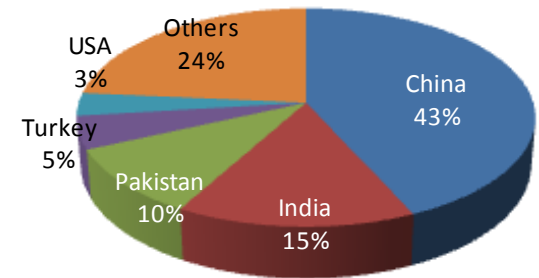
2006/07



2007/08



2008/09



Source: USDA

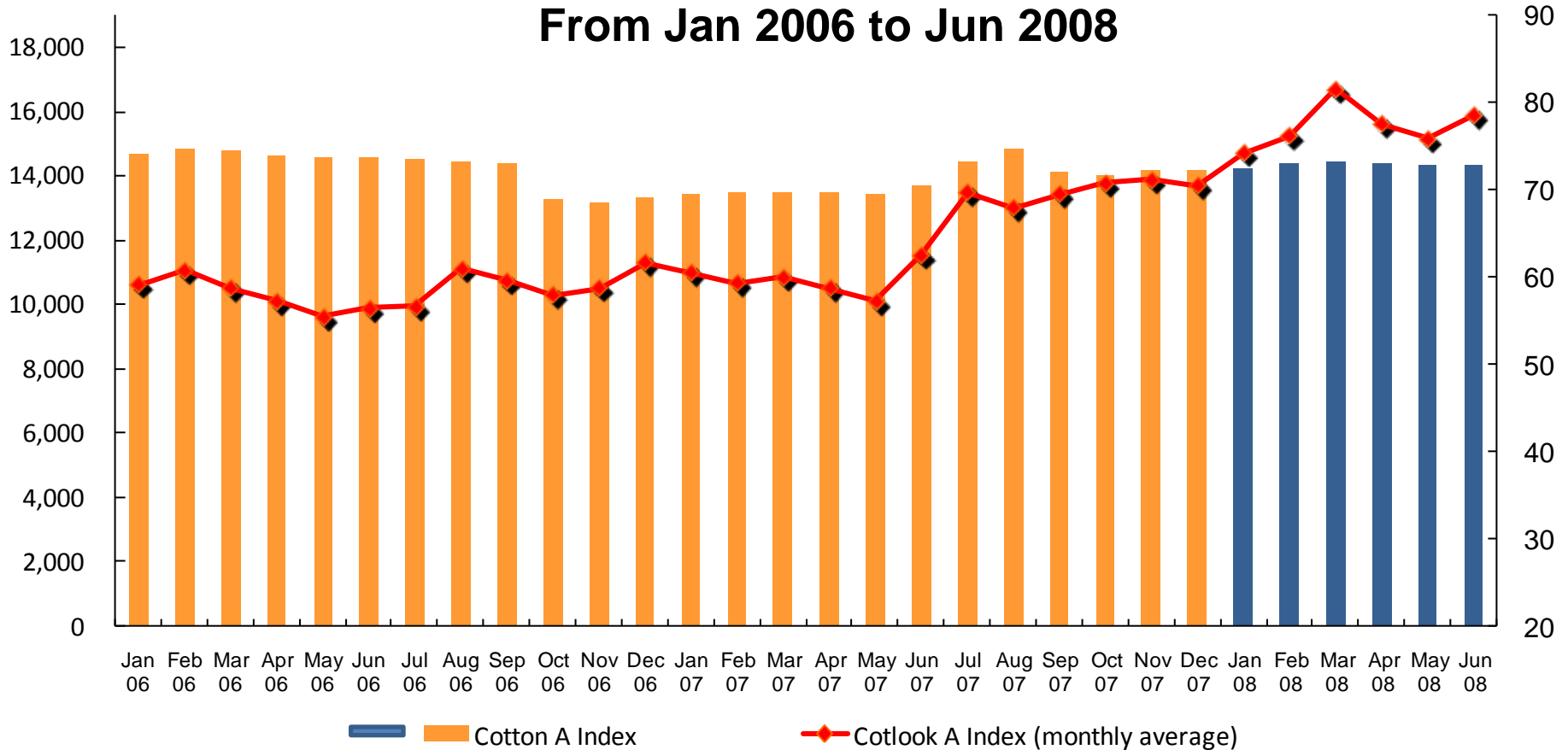


Growing Cotton Price

Cotton A
RMB / tons

Cotlook A
cents / pound

Cotton Price: Cotton A Index and Cotlook A Index From Jan 2006 to Jun 2008

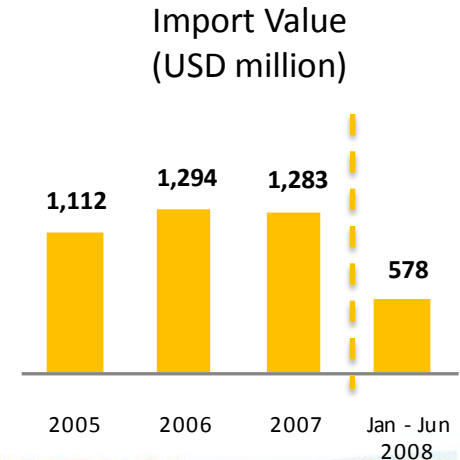
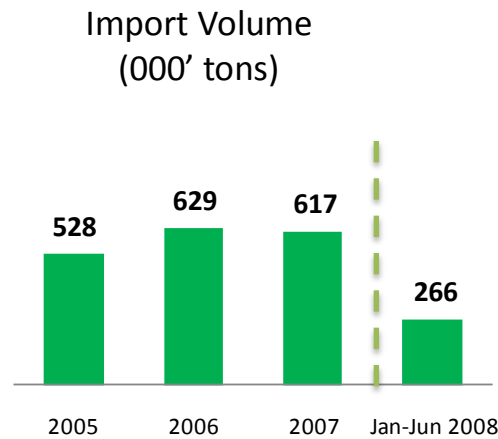
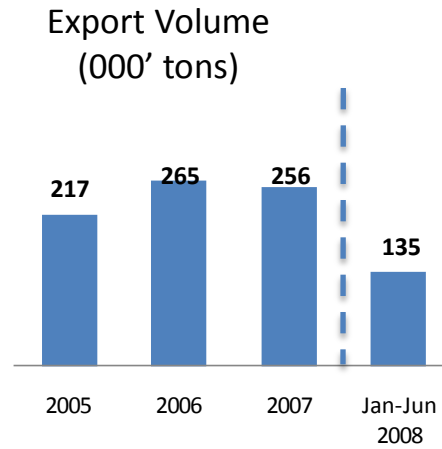
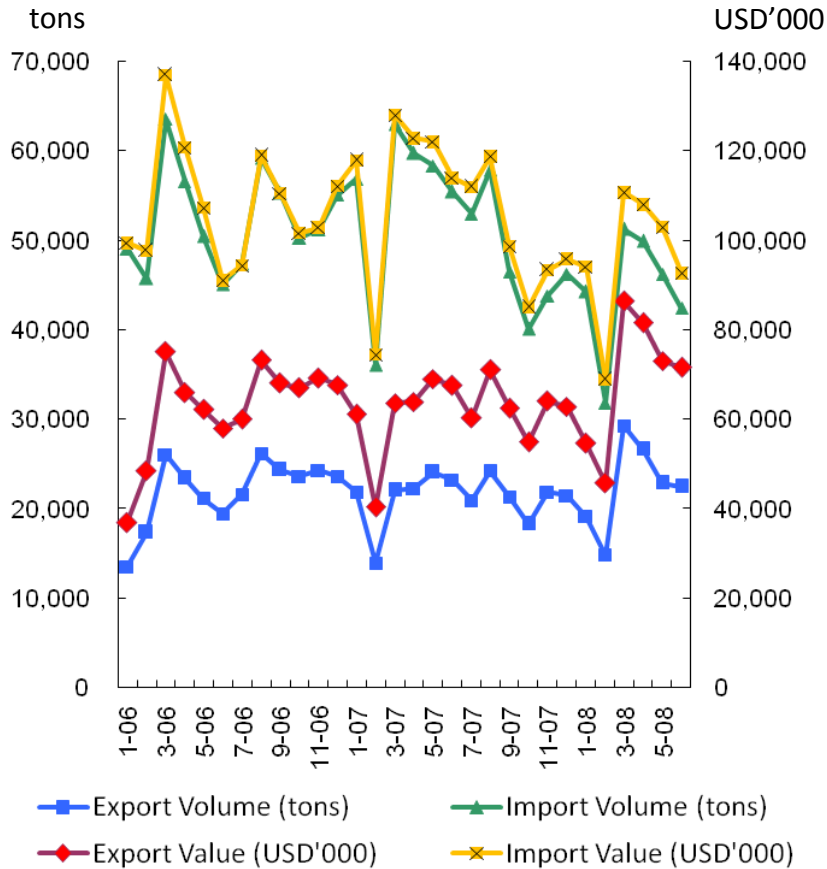


Source: cncotton.com, cotlook.com



Import and Export of Cotton Yarn: Volume & Value

Jan 2006 to Jun 2008

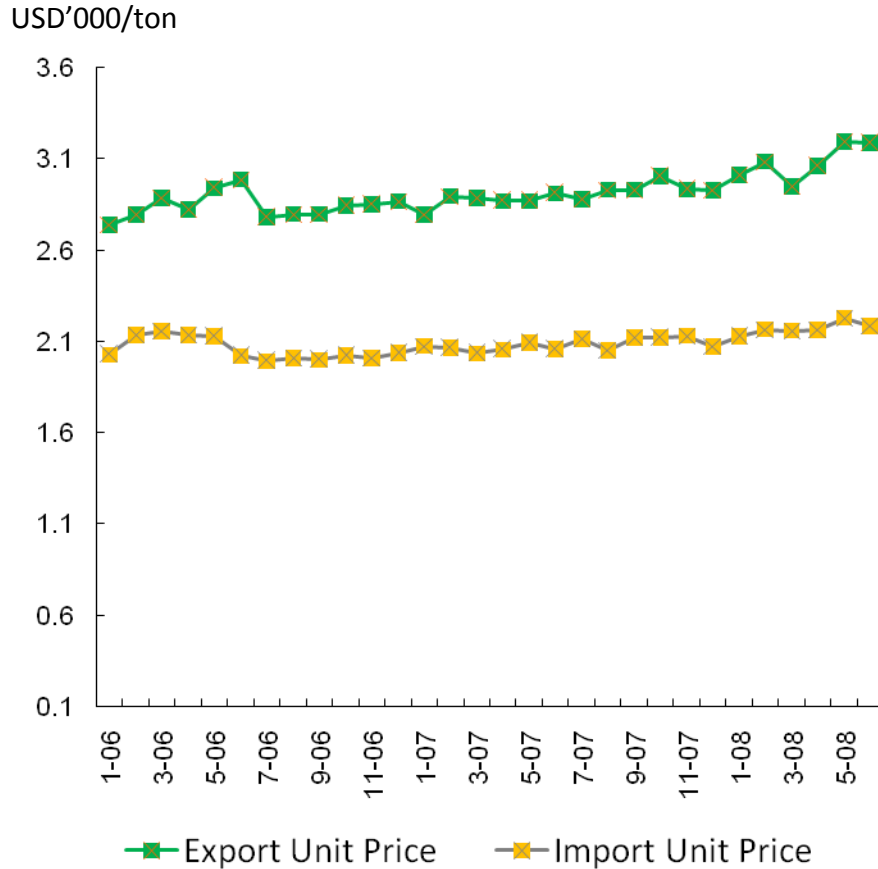


Source: China Cotton Textile Association

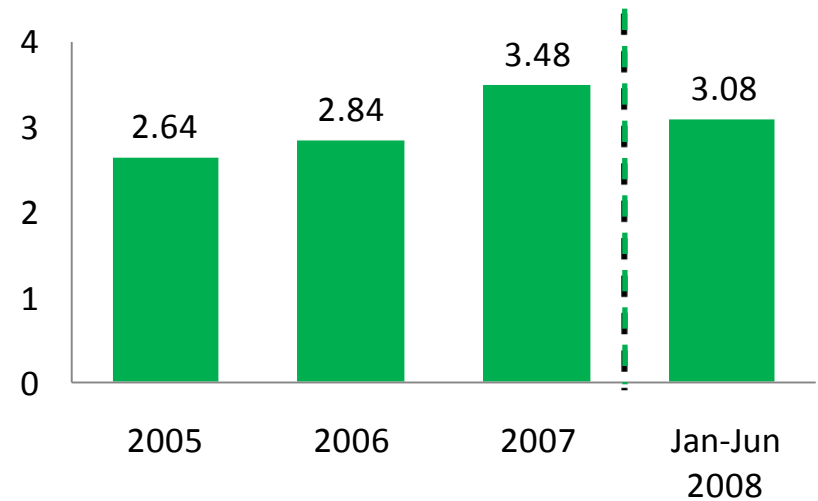


Import and Export of Cotton Yarn: Price

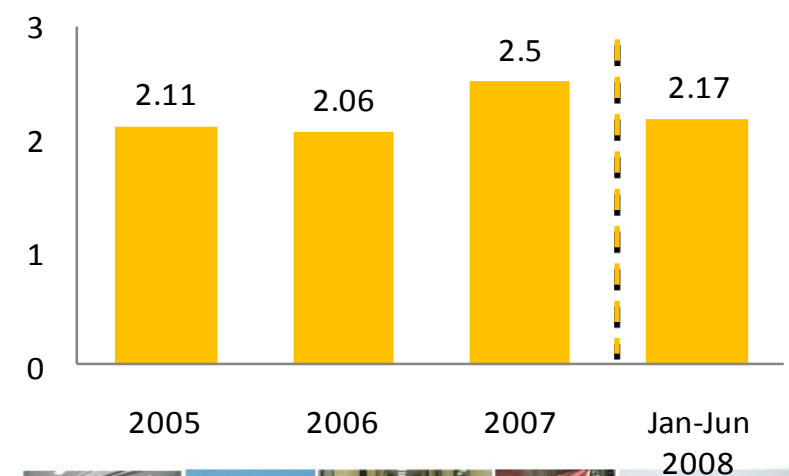
Jan 2006 to Jun 2008



■ Average export unit price (USD'000/ton)



■ Average import unit price (USD'000/ton)

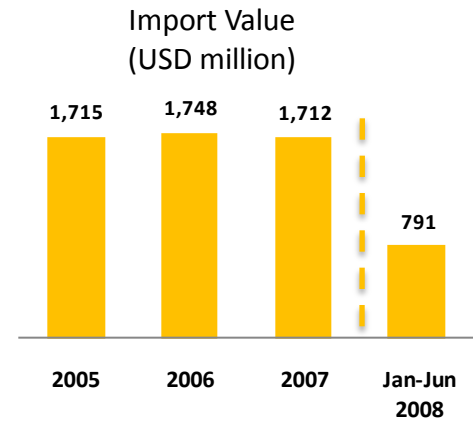
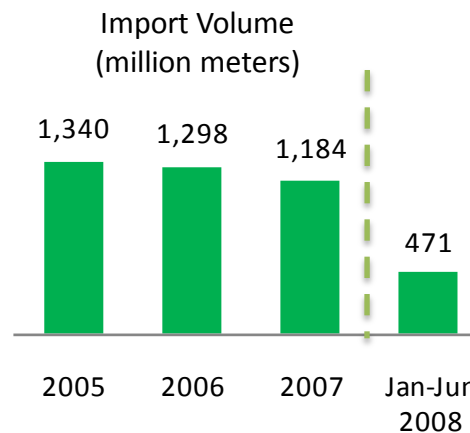
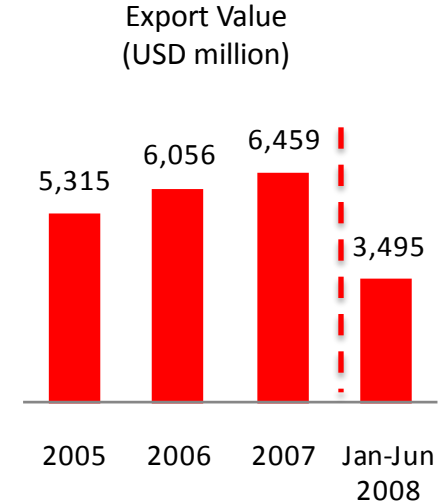
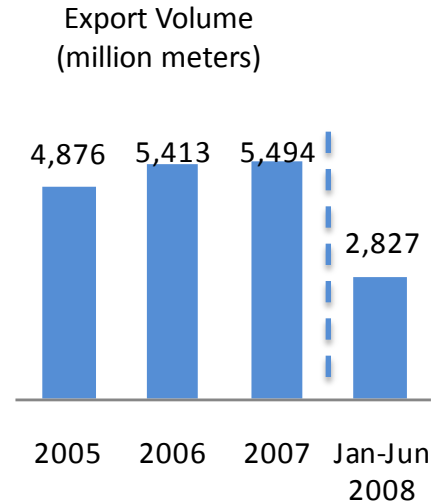
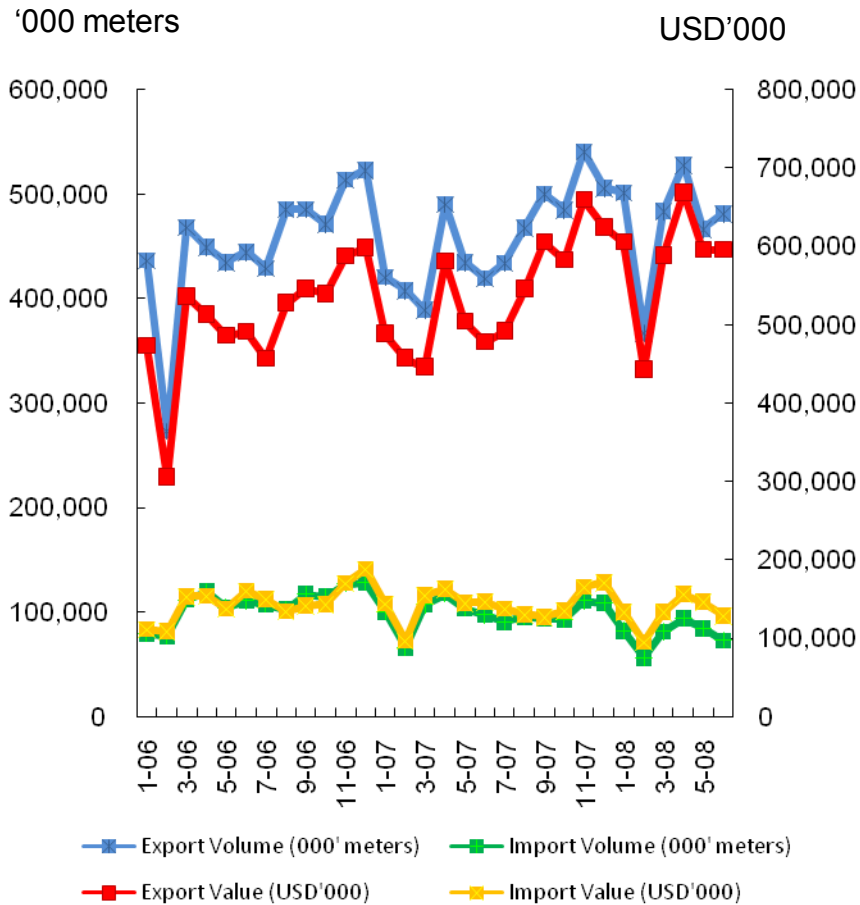


Source: China Cotton Textile Association



Import and Export of Grey Fabric: Volume & Value

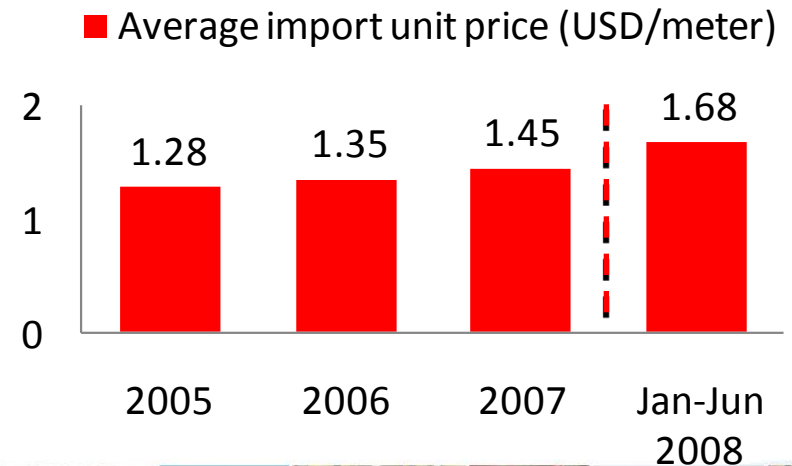
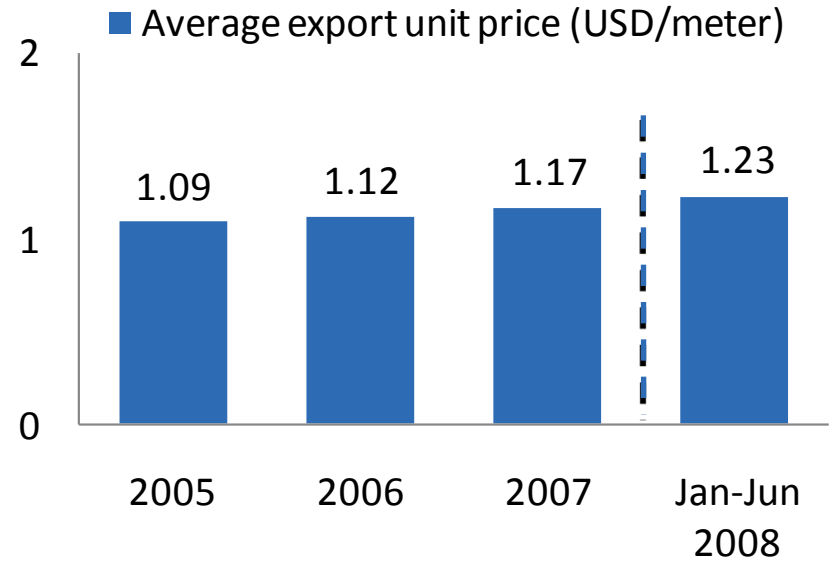
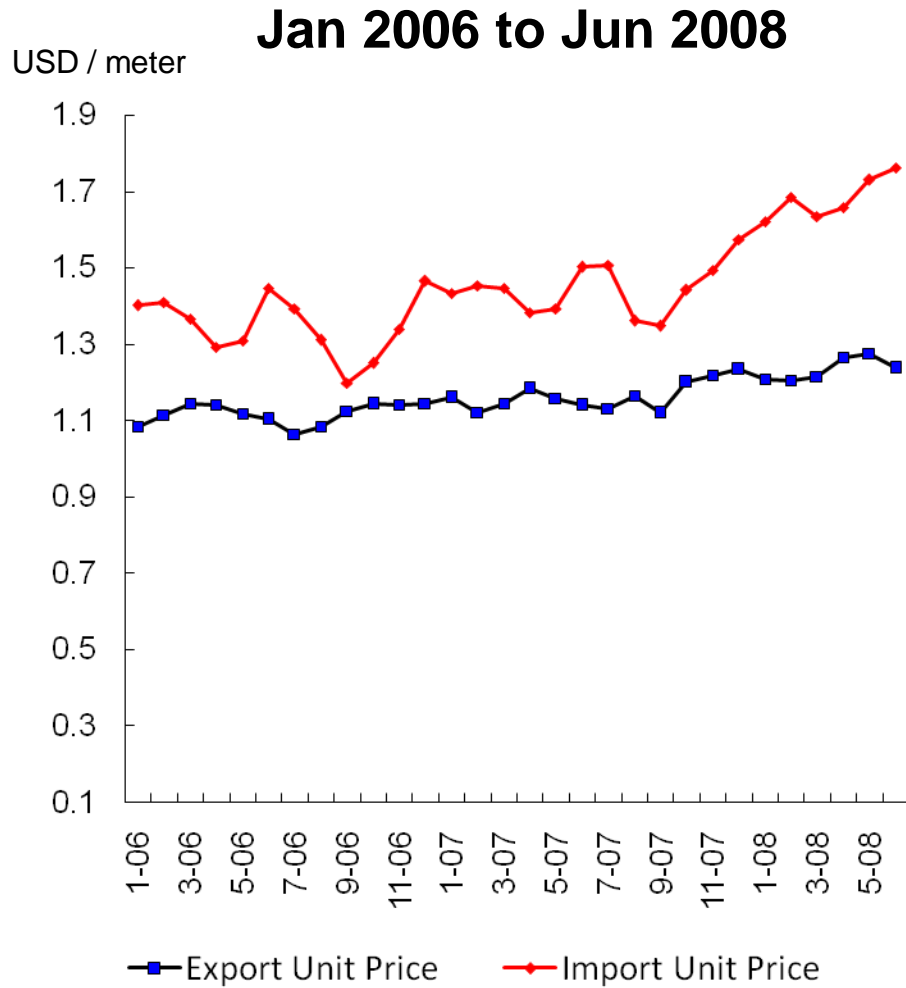
Jan 2006 – Jun 2008



Source: China Cotton Textile Association



Import and Export of Grey Fabric: Price



Source: China Cotton Textile Association



Government Adjusted Policies to Support Textile Industry

Adjustment on processing trade policy posed challenges to the industry, pre-tax profit margin for 2/3 textile enterprises was only 0.124%

On 28 May, the Ministry of Finance announced a lower floating tariff for imported cotton from 5 June to 5 October, tariff reduced from 5%-40% to 3%-40%

Effective from 1 August, Ministry of Finance and State Administration of Taxation increased part of the textiles and clothing VAT rebate rates from 11% to 13%, this helps relieve the short-term pressure on exporting enterprises

Proportion of processing trade reached 50.4% in 1H2008, the processing trade of high-tech products increased in 1H2008 showing that there is optimization on the trading structure





Business Review

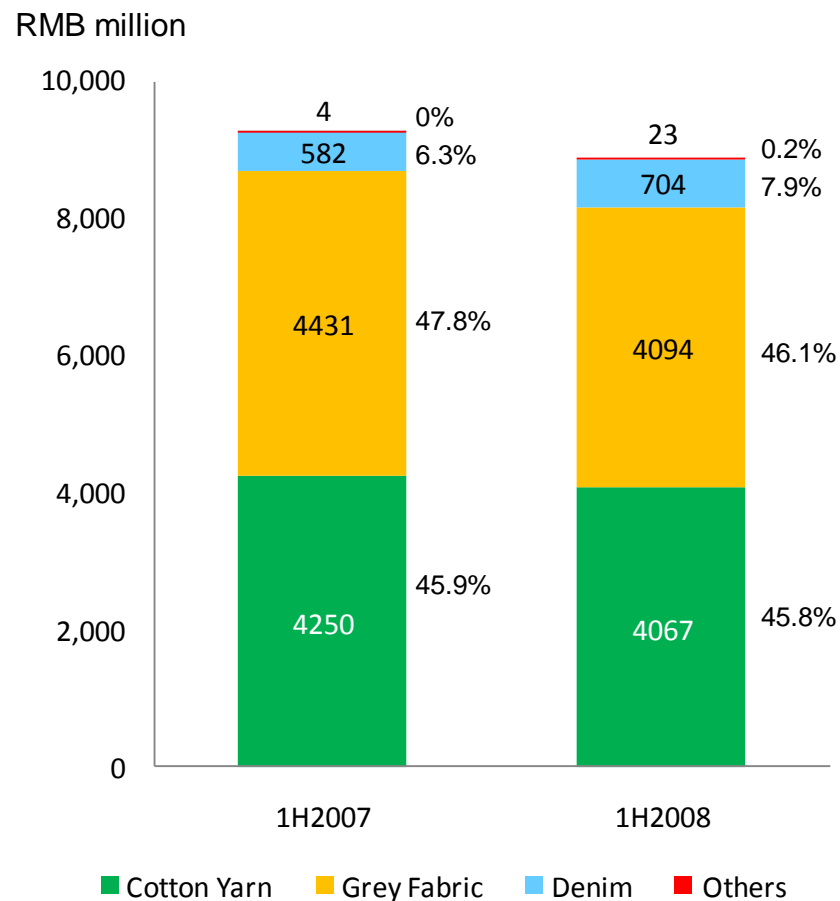


Revenue Maintained Stable

- The sale of cotton yarn, grey fabric and denim accounted for 45.8%, 46.1% and 7.9% of the total sales in 1H2008

RMB million	1H2007	1H2008
Cotton Yarn	4,250	4,067
Grey Fabric	4,431	4,094
Denim	582	704
Others	4	23
Total	9,267	8,888

Sales Breakdown by Product in 1H2007 and 1H 2008



Gross Profit Margin by Segment

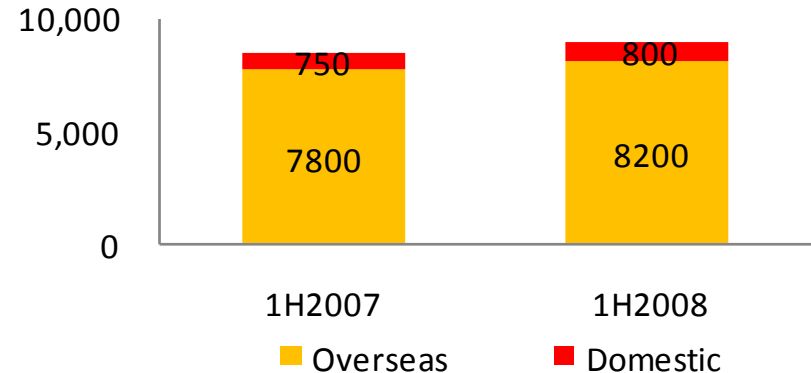
	1H2007 RMB'000	GP Margin (%)	1H2008 RMB'000	GP Margin (%)
Cotton Yarn	712,060	16.8	272,337	6.7
Grey Fabric	710,608	16.0	318,259	7.8
Denim	91,060	15.7	85,514	12.2
Others	396	8.9	301	1.3
Total	1,514,124	16.3	676,411	7.6



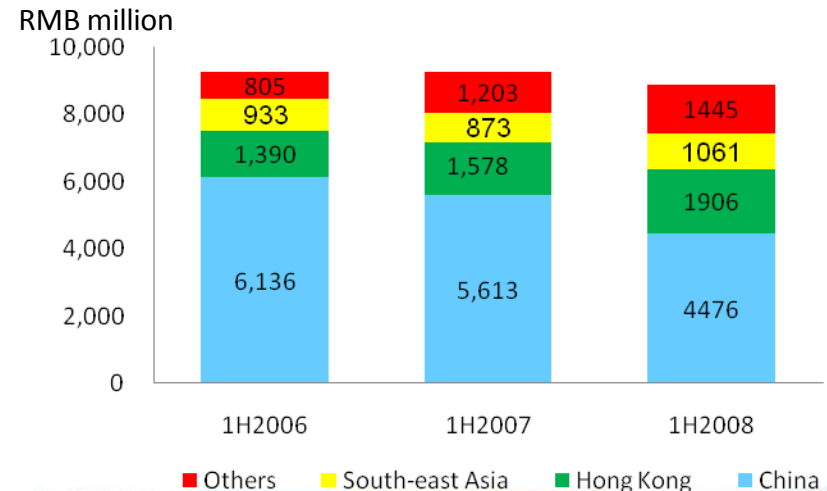
Established Customer Base

- Domestic customers: approx. 8,200 customers across 30 provinces
- Overseas customers: approx. 800 customers across 30 countries and regions
- Preservation of sales network in overseas markets, portion of sales reached 49.6%
- In order to prevent price competition and avoid the risk of bad debts, portion of sales in domestic market reduced to 50.4% as a result
- Revenue from EU and US accounted for 5.0% of total revenue in 1H2008
- Sales to top five customers accounted for 15.6% of total sales in 1H2008
- Sales to single largest customer accounted for 6.1%

Number of customers



Revenue breakdown by region



Acquisition of Power Plant for Cost-saving and Stable Energy Supply

- In 1H2008, the Company completed the acquisition of thermal power assets from Shandong Weiqiao Chuangye Group Company Limited. Total installed electricity generation capacity is 600 MW, amounted to RMB 2,210,000,000 (equivalent to HK\$ 2,376,344,000)
- On 4 September 2008, the Company agreed to acquire thermal power asset from Gaoxin Thermal Power, it amounted to RMB 1,599,017,500. The Company will complete the payment by transferring the ownership of Weiqiao First Thermal Power Plant and supplying electricity to Gaoxin Thermal Power
- Reasons and advantages of the acquisition:
 - Cost saving
 - To increase energy reserves and to accommodate the Company's future operational needs for electricity and steam
 - Proper closing down and suspending of assets of Weiqiao First Thermal Power Plant
 - Sales of remaining electricity will bring extra income to the Company

Information about thermal power asset acquired and to be acquired	Installed electricity generation capacity (MW)
Weihai Power Plant	120
Zouping Power Plant	480
Gaoxin Thermal Power	420



Maintain a Leading Position in the Industry



No. 73 in 2007 Top 100 Listed Companies in the PRC from Fortune Magazine

Shandong Weiqiao Chuangye Group nominated in Forbes “Top 10 China’s Enterprises List in 2008”

No. 1 in 2007 Top 100 Yarn Export Enterprise in the PRC

No. 1 in 2007 Top 100 Fabric Export Enterprise in the PRC

Weiqiao Textile’s grey fabric recognized by AQSIQ as “China Brandname Products”

Weiqiao Textile’s combed yarn recognized by AQSIQ as “China Brandname Products”





Strategies and Prospects



Prospects

Opportunities

- ✓ Unified tax rate
- ✓ Adjustment of floating tariff
- ✓ Increase of VAT rebate
- ✓ Keen competition speeds up industry consolidation
- ✓ Industry upgrade improves profit margin in the long-term
- ✓ Adjustment of processing trade policy will help optimize the quality of exported products

Challenges

- ◆ Demand of cotton textiles slowed down
- ◆ Cost of cotton, energy and labor increased
- ◆ Appreciation of RMB
- ◆ Interest rate in China maintained high
- ◆ Keen domestic competition due to abundant exporters back



Objectives and Strategies

- ▶ To adopt a principle of “Reduction in profits rather than giving up market share”
- ▶ To increase gains proportion of high-value added products
- ▶ To ensure steady supply of energy and to strengthen operating efficiency
- ▶ To strengthen financial cost control and optimize corporate governance structure
- ▶ To retain our strong customer base and sales networks in order to reap maximum gains when the market recovers



**TO BE THE
LARGEST &
STRONGEST
COTTON TEXTILE
MANUFACTURER
IN THE WORLD**



W Q&A

