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天虹紡織集團有限公司
TEXHONG TEXTILE GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 2678)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by 20.2% to RMB2,974 million
- Gross profit margin decreased by 0.4 percentage point to 18.8%
- Net profit margin decreased by 3.7 percentage point to 8.6%
- Profit attributable to equity holders decreased by 15.9% to RMB256 million
- Profit attributable to equity holders after excluding other income and other losses increased by 15.1% to RMB305 million
- Earnings per share for the half year decreased by 16.0% to RMB0.29

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 30 June	
	Note	**2011** **RMB'000**	2010 RMB'000
Revenue	*2*	**2,973,956**	2,473,443
Cost of sales	*3*	**(2,416,024)**	(1,999,426)
Gross profit		**557,932**	474,017
Selling and distribution costs	*3*	**(61,675)**	(66,811)
General and administrative expenses	*3*	**(100,722)**	(76,126)
Other income		**2,727**	42,272
Other losses – net		**(51,455)**	(2,598)
Operating profit		**346,807**	370,754
Finance income	*4*	**2,704**	1,540
Finance costs	*4*	**(44,795)**	(23,998)
Share of profit of an associate		**751**	280
Profit before income tax		**305,467**	348,576
Income tax expense	*5*	**(49,215)**	(44,006)
Profit for the period		**256,252**	304,570
Other comprehensive income		**–**	–
Total comprehensive income for the period		**256,252**	304,570
Total comprehensive income attributable to:			
– Owners of the Company		**256,082**	304,570
– Non-controlling interests		**170**	–
		256,252	304,570
Earnings per share attributable to owners of the Company (expressed in RMB per share)	*6*		
Basic earnings per share		**0.289**	0.344
Diluted earnings per share		**0.289**	0.344
Dividends	*7*	**72,606**	84,938

The notes on pages 5 to 13 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2011** *RMB'000*	Audited 31 December 2010 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**187,755**	151,075
Property, plant and equipment		**1,954,768**	1,798,930
Investment in an associate		**44,311**	43,560
Deferred income tax assets		**40,790**	24,430
Total non-current assets		**2,227,624**	2,017,995
Current assets			
Inventories		**1,726,616**	1,386,851
Trade and bills receivables	*8*	**841,530**	404,319
Prepayments, deposits and other receivables		**161,354**	495,378
Pledged bank deposits		**36,614**	35,231
Cash and cash equivalents		**662,442**	569,466
Total current assets		**3,428,556**	2,891,245
Total assets		**5,656,180**	4,909,240
EQUITY			
Equity attributable to owners of the Company			
Share capital		**94,064**	94,064
Other reserves		**606,677**	608,517
Retained earnings		**1,638,197**	1,506,518
		2,338,938	2,209,099
Non-controlling interests		**246**	76
Total equity		**2,339,184**	2,209,175

	Note	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**1,473,866**	629,806
Deferred income tax liabilities		**56,206**	49,275
Total non-current liabilities		**1,530,072**	679,081
Current liabilities			
Trade and bills payables	*9*	**1,019,933**	859,402
Accruals and other payables		**325,022**	476,533
Current income tax liabilities		**17,553**	41,668
Borrowings		**403,213**	609,912
Derivative financial instruments	*10*	**21,203**	33,469
Total current liabilities		**1,786,924**	2,020,984
Total liabilities		**3,316,996**	2,700,065
Total equity and liabilities		**5,656,180**	4,909,240
Net current assets		**1,641,632**	870,261
Total assets less current liabilities		**3,869,256**	2,888,256

The notes on pages 5 to 13 form an integral part of this condensed consolidated interim financial information.

Notes:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of yarn, grey fabrics and garment fabrics.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2004.

This condensed consolidated interim financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 19 August 2011.

This condensed consolidated interim financial information has not been audited.

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011:

- HKAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

    - The name of the government and the nature of their relationship;
    - The nature and amount of any individually significant transactions; and
    - The extent of any collectively-significant transactions qualitatively or quantitatively.

    It also clarifies and simplifies the definition of a related party. The amendment has no significant impact on the Group's condensed consolidated interim financial information, as there are no transactions among government related entities and the government during the period.

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- Amendment to HKAS 32 'Classification of rights issues' is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

- Amendment to HK(IFRIC) – Int-14 'Prepayments of a minimum funding requirement' is effective for annual periods beginning on or after 1 January 2011. This is not currently relevant to the Group, as it does not have a minimum funding requirement.

- HK(IFRIC) – Int-19 'Extinguishing financial liabilities with equity instruments' is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by both IASB and the HKICPA, except for amendment to HKAS 34 'Interim financial reporting' as disclosed in note 3(a) and the clarification to allow the presentation of an analysis of the components of other comprehensive income by item within the notes, all are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

(c) New and amended standards which are not yet effective

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

- HKFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. For example, the retained exposure could be presented by type of financial instrument (such as guarantees, call or put options), or by type of transfer (such as factoring of receivables, securitisations or securities lending). The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.

2. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics. Revenues recognised for the period ended represented sales of goods, net of value-added tax.

The chief operating decision-maker has been identified as the Committee of Executive Directors of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Committee of Executive Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee of Executive Directors considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance from sales of yarn, grey fabrics and garment fabrics. The operations are further evaluated on a geographic basis including Mainland China, Vietnam, Macao and Hong Kong.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

The segment information for the six months ended 30 June 2011 is as follows:

	Unaudited Six months ended 30 June 2011						
	Yarn				Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Hong Kong *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total revenue	2,186,787	1,122,027	2,203,873	36,068	444,601	47,113	6,040,469
Inter-segment revenue	(176,065)	(993,815)	(1,860,565)	(36,068)	–	–	(3,066,513)
Revenue (from external customers)	2,010,722	128,212	343,308	–	444,601	47,113	2,973,956
Segment results	155,583	36,274	190,415	(2,563)	1,908	5,383	387,000
Unallocated expenses							(40,193)
Operating results							346,807
Finance income							2,704
Finance costs							(44,795)
Share of profit of an associate							751
Income tax expense							(49,215)
Profit for the period							256,252
Depreciation and amortisation	(37,127)	(32,555)	(9)	(58)	(11,366)	(943)	(82,058)

The segment information for the six months ended 30 June 2010 is as follows:

	Unaudited Six months ended 30 June 2010						
	Yarn				Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Hong Kong *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total revenue	1,919,350	728,293	651,613	150,454	451,420	70,077	3,971,207
Inter-segment revenue	(270,271)	(441,611)	(651,611)	(134,271)	–	–	(1,497,764)
Revenue (from external customers)	1,649,079	286,682	2	16,183	451,420	70,077	2,473,443
Segment results	201,021	154,366	(12,364)	7,805	16,421	7,768	375,017
Unallocated expenses							(4,263)
Operating results							370,754
Finance income							1,540
Finance costs							(23,998)
Share of profit of an associate							280
Income tax expense							(44,006)
Profit for the period							304,570
Depreciation and amortisation	(29,906)	(25,926)	(6)	(50)	(10,685)	(1,272)	(67,845)

The segment assets and liabilities as at 30 June 2011 are as follows:

	Unaudited As at 30 June 2011							
	Yarn					**Grey fabrics**	**Garment fabrics**	
	Mainland China *RMB'000*	**Vietnam** *RMB'000*	**Macao** *RMB'000*	**Hong Kong** *RMB'000*	**Sub-total** *RMB'000*	**Mainland China** *RMB'000*	**Mainland China** *RMB'000*	**Total** *RMB'000*
Total segment assets	**3,003,567**	**1,601,145**	**251,008**	**12,541**	**4,868,261**	**691,840**	**90,292**	**5,650,393**
Unallocated assets								**5,787**
Total assets of the Group								**5,656,180**
Total segment liabilities					**(1,637,225)**	**(144,474)**	**(8,108)**	**(1,789,807)**
Unallocated liabilities								**(1,527,189)**
Total liabilities of the Group								**(3,316,996)**
Capital expenditure	**51,276**	**221,110**	**865**	**14**	**273,265**	**2,347**	**61**	**275,673**

The segment assets and liabilities as at 31 December 2010 are as follows:

	Audited As at 31 December 2010							
	Yarn					Grey fabrics	Garment fabrics	Total
	Mainland China	Vietnam	Macao	Hong Kong	Sub-total	Mainland China	Mainland China	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	2,919,594	1,197,406	114,040	4,348	4,235,388	538,049	99,705	4,873,142
Unallocated assets								36,098
Total assets of the Group								4,909,240
Total segment liabilities					(2,011,165)	(143,589)	(14,272)	(2,169,026)
Unallocated liabilities								(531,039)
Total liabilities of the Group								(2,700,065)
Capital expenditure	243,253	238,485	19	69	481,826	3,332	100	485,258

3. EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Cost of inventories	**1,932,316**	1,653,244
Employment costs	**207,615**	176,136
Utilities	**131,983**	128,198
Depreciation and amortisation	**82,058**	67,845
Provision for inventory write-downs	**79,490**	–
Transportation	**37,619**	45,129

4. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Interest expense – bank borrowings wholly repayable within five years	**76,518**	27,941
Less: amount capitalised in property, plant and equipment	**(353)**	(126)
	76,165	27,815
Exchange gain on financing activities	**(31,370)**	(3,817)
Finance costs – net	**44,795**	23,998
Finance income – interest income on bank deposits	**(2,704)**	(1,540)
Net finance costs	**42,091**	22,458

5. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current income tax		
– Mainland China and Vietnam enterprise income tax	**58,644**	41,340
Deferred income tax	**(9,429)**	2,666
	49,215	44,006

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the period (2010: Nil).

(ii) Mainland China enterprise income tax

Subsidiaries established in Mainland China are subject to enterprise income tax ("EIT") at rates ranging from 24% to 25% during the period (2010: 22% to 25%).

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries of the Company established in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008, in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

(iii) Vietnam income tax

Subsidiaries established in Vietnam are subject to income tax rate of 25% (2010: 25%).

As approved by the relevant Tax Bureau in Vietnam, one subsidiary of the Company established in Vietnam in 2011 is entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction and is entitled to a preferential income tax rate of 10% for 15 years, commencing from the first profitable year after offsetting the losses carried forward from the previous years.

As approved by the relevant Tax Bureau in Vietnam, the other subsidiary of the Company established in Vietnam in 2006 should separately calculate income tax on its supplementary investments. The initial investment of the subsidiary is entitled to three years' exemption from income taxes followed by seven years of a 50% tax reduction and is entitled to a preferential income tax rate of 15% for 12 years. The first supplementary investment of the subsidiary is entitled to three years' exemption from income taxes followed by five years of a 50% tax reduction based on the income tax rate of 25%.

The applicable tax rates for the subsidiaries established in Vietnam range from nil to 25% during the period (2010: Nil).

(iv) Other income tax

The Company, incorporated in the Cayman Islands, and the Company's subsidiaries established in the British Virgin Islands are exempted from payment of income tax in their respective place of incorporation.

The subsidiary established in Macao is subject to income tax at rate of 9% (2010: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the period (2010: Nil).

6. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2011	2010
Profit attributable to equity holders of the Company (RMB'000)	**256,082**	304,570
Weighted average number of ordinary shares in issue (thousands)	**884,681**	884,681
Basic earnings per share (RMB per share)	**0.289**	0.344

(b) Diluted

Diluted earnings per share is the same as the basic earnings per share since the Company does not have diluted shares.

7. DIVIDENDS

A dividend that relates the period up to 31 December 2010 and that amounts to RMB126,243,000 was paid in April 2011 (2010: RMB58,369,000).

In addition, an interim dividend of HKD0.1 per ordinary share (2010: HKD0.11) was proposed by the board of directors on 19 August 2011. It will be payable on or about 28 September 2011 to shareholders whose names are on the register of members of the Company at 15 September 2011. This interim dividend, amounting to RMB72,606,000 (2010: RMB84,938,000), has not been recognised as a liability in this condensed consolidated balance sheet. It will be recognised in shareholders' equity in the year ending 31 December 2011.

8. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Trade receivables	**171,103**	124,381
Less: provision for impairment	**(1,264)**	(1,264)
	169,839	123,117
Bills receivables	**671,691**	281,202
	841,530	404,319

As at 30 June 2011, included in the trade receivable was an amount due from an associate of RMB42,000 (31 December 2010: Nil).

The Group generally grants credit terms of less than 90 days to its customers. The ageing analysis of the trade and bills receivables was as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Within 30 days	**165,910**	301,569
31 to 90 days	**112,180**	77,305
91 to 180 days	**563,672**	25,800
181 days to 1 year	**143**	–
Over 1 year	**889**	909
	842,794	405,583
Less: provision for impairment	**(1,264)**	(1,264)
Trade and bills receivables – net	**841,530**	404,319

9. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Trade payables	**389,072**	155,443
Bills payables	**630,861**	703,959
	1,019,933	859,402

As at 30 June 2011, included in the trade payables was an amount due to an associate of RMB566,000 (31 December 2010: RMB50,000).

The ageing analysis of the trade and bills payables was as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Within 90 days	**761,323**	634,853
91 to 180 days	**235,043**	218,025
181 days to 1 year	**20,817**	4,646
Over 1 year	**2,750**	1,878
	1,019,933	859,402

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Liabilities:		
Interest rate swap contracts *(Note (a))*	**21,203**	241
Futures contracts *(Note (b))*	**–**	33,228
	21,203	33,469

Non-hedging derivatives are classified as a current asset or liability.

Notes:

(a) The interest rate swap contracts were composed of the following two contracts:

The notional principal amount of the outstanding interest rate swap contract at 30 June 2011 was RMB1,294,320,000 (31 December 2010: Nil). At 30 June 2011, the floating rate was with reference to Deutsche Bank Racer Index (subject to a maximum interest rate of 8.99%) and the fixed interest rate was 7.625% (31 December 2010: Nil).

The notional principal amount of the outstanding interest rate swap contract at 30 June 2011 was RMB11,649,000 (31 December 2010: RMB17,881,000). At 30 June 2011, the fixed interest rate was 1.86% (31 December 2010: 1.86%) and the floating rate was with reference to London InterBank Offered Rate ("LIBOR").

(b) At 31 December 2010, the futures contracts represented the futures trading for cotton in the active futures market.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present to the shareholders with the results of the Group for the six months ended 30 June 2011. During the period under review, the turnover of the Group increased by 20.2% from the corresponding period last year to RMB2,974 million mainly due to the increase in product selling prices. Profit attributable to equity holders decreased by 15.9% from the corresponding period last year to RMB256 million, and profit attributable to equity holders after excluding other income and other losses increased by 15.1% to RMB305 million. Earnings per share for the half year decreased by 16.0% from RMB0.344 for the corresponding period last year to RMB0.289. The decrease in profit attributable to equity holders was mainly attributable to a one-off provision for inventories write-downs in view of the recent drop in product selling prices. In addition, there were other losses in financial derivatives totalling about RMB43 million in relation to the interest rate swap contracts and squaring of cotton short futures contracts.

Industry review

According to the information provided by China National Textile And Apparel Council, the accumulated industrial output value of textile enterprises in China from January to May 2011 was RMB1,990.8 billion in total, representing an increase of 30.15% over the corresponding period last year. According to the statistics from General Administration of Customs, the accumulated amount of export of textile and garment products from January to June 2011 amounted to US$111.7 billion, representing an increase of 25.73% over the corresponding period in 2010. An additional investment of RMB295.6 billion was made in the textile industry in China from January to June 2011, representing an increase of 37.56% over the corresponding period last year.

Business Review

For the six months ended 30 June 2011, the turnover of the Group was RMB2,974 million, representing an increase of 20.2% over the corresponding period last year. The turnover comprises sales of yarns, grey fabrics and garment fabrics. Yarns continued to be the major product of the Group, the turnover of which amounted to RMB2,482 million and accounted for 83.5% of the Group's total turnover. Despite the completion of the Phase III 190,000-spindle project in Vietnam in April 2011, sales volume of yarns decreased by 16.5% from the corresponding period last year to 75,209 tonnes, which was mainly due to higher demand for cotton high-count yarns in the market and a weaker demand of cotton low-count yarns and denim yarns under high product selling prices. The Group has continuously focused on the core-spun cotton and denim yarn markets in China and explored the differentiated and high value-added yarn products market. The turnover of our grey fabrics amounted to RMB445 million and accounted for 14.9% of the Group's total turnover. Sales volume of grey fabrics decreased by 29.3% from the corresponding period last year to 33 million meters. The operating data of our products is set out below:

	January to June 2011	**Gross profit margin**	January to June 2010	Gross profit margin	**Turnover change between 2011 and 2010**	**Margin change between 2011 and 2010 percentage points**
	RMB'000		*RMB'000*			
Stretchable core-spun yarns						
– Cotton	**968,743**	21.5%	833,479	23.7%	16.2%	-2.2
– Denim	**279,949**	27.9%	263,715	22.9%	6.2%	5.0
– Synthetic fiber	**256,448**	22.3%	193,007	17.5%	32.9%	4.8
Other yarns						
– Cotton	**203,844**	0.5%	107,326	8.7%	89.9%	-8.2
– Denim	**462,253**	19.4%	452,954	20.7%	2.1%	-1.3
– Synthetic fiber	**311,005**	27.9%	101,465	25.2%	206.5%	2.7
Fabrics						
– Stretchable grey fabrics	**311,834**	7.9%	348,824	9.3%	-10.6%	-1.4
– Other grey fabrics	**132,767**	3.1%	102,596	9.9%	29.4%	-6.8
– Garment fabrics	**47,113**	16.5%	70,077	15.8%	-32.8%	0.7
Total	**2,973,956**	18.8%	2,473,443	19.2%	20.2%	-0.4

	Sales Volume		**Sales Volume change between 2011 and 2010**	**Selling price**		**Selling Price change between 2011 and 2010**
	January to June 2011	January to June 2010		**January to June 2011**	January to June 2010	
Stretchable core-spun yarns (Ton/RMB per ton)						
– Cotton	**24,810**	33,230	-25.3%	**39,046**	25,082	55.7%
– Denim	**8,522**	12,991	-34.4%	**32,850**	20,300	61.8%
– Synthetic fiber	**9,100**	8,867	2.6%	**28,181**	21,767	29.5%
Other yarns (Ton/RMB per ton)						
– Cotton	**6,232**	5,513	13.0%	**32,709**	19,468	68.0%
– Denim	**15,690**	24,359	-35.6%	**29,462**	18,595	58.4%
– Synthetic fiber	**10,855**	5,070	114.1%	**28,651**	20,013	43.2%
Fabrics (Million meters/ RMB per meter)						
– Stretchable grey fabrics	**23.1**	35.3	-34.6%	**13.5**	9.9	36.4%
– Other grey fabrics	**10.3**	11.9	-13.4%	**12.9**	8.6	50.0%
– Garment fabrics	**1.9**	5.0	-62.0%	**24.8**	14.0	77.1%

The overall gross profit margin of the Group's products decreased from 19.2% in the corresponding period last year to 18.8%. It was mainly attributable to the one-off provision for inventories write-downs in view of the recent drop in product selling prices.

Following the continuous drop in cotton price starting from the second quarter of 2011, we experienced significant pressure on our product selling prices over the past few months. Based on the recent product selling prices in July 2011, we made a provision of about RMB79 million for inventories write-downs as of 30 June 2011. Due to the change of product mix and less than expected cotton consumption in the first half of 2011, we have requested our cotton suppliers to delay the delivery of certain quantity of cotton from the first half of 2011 to the second half of the year. As of 30 June 2011, we had about 25,000 tonnes of yarns and 30,000 tonnes of different types of cotton inventories on hand. Based on our current monthly cotton consumption, our cotton inventories together with the ordered cotton are already sufficient for production in the second half of 2011. As such, cotton price fluctuation will have significant impact on our performance in the second half of 2011. Management have already taken various measures to increase the cotton consumption and product sales volume in order to lower the inventory level.

During the development of differentiated products, we keep on exploring the production of different types of yarns including knitted yarns. We have continued to maintain a close cooperation relationship with special fibre producers. Our research and development centre in Changzhou has been developing and improving a wide variety of products based on the market demand in order to secure our leading position in the industry and meet the demand of quality customers for different high-end products.

The Chinese textile market has been the Group's major market, the ten largest customers of the Group for the six months ended 30 June 2011 are as follows:

FOSHAN SEAZON TEXTILE & GARMENT CO., LTD.
ZHEJIANG LIMAYUNSHAN TEXTILE CO., LTD.
ZHEJIANG JIAERMEI TEXTILE CO., LTD.
TORAY INTERNATIONAL, INC.
NINGBO DAQIAN TEXTILE CO., LTD.
GUANGDONG QIANJIN JEANS CO., LTD.
YIXING LUCKY G AND L DENIM CO., LTD.
SHAOGUAN SHUNCHANG WEAVING FACTORY CO., LTD.
XINGTAI HENGJIN TEXTILE CO., LTD.
ZHEJIANG HING FUNG WEAVING, DYEING & PRINTING CO., LTD.

FUTURE OUTLOOK

After significant fluctuation in cotton price since 2008, management expect cotton price to be more stable assuming that the overall supply and demand of cotton are in balance in 2012. As such, raw material cost and product selling price are expected to be more stable and then the visibility of the Group's financial performance can be improved. For our new expansion plan on the 67 hectares land in Vietnam, since the land developer has not yet made vacant of the land for us, the completion of the first 300,000 spindles expansion plan is expected to be delayed to the second half of 2012.

Looking forward, the management will continue to strive to maintain its competitiveness and leading position by the orderly expansion of production capacity, the optimization of the existing product mix and the development of new products that cater for the market trend and demand while adhering to our operating strategy that focuses on "professionalism, perfectionism and globalization".

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2011, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB699.1 million (As at 31 December 2010: RMB604.7 million).

The Group's inventories and trade and bills receivables increased by RMB339.7 million and by RMB437.2 million to RMB1,726.6 million and RMB841.5 million respectively (As at 31 December 2010: RMB1,386.9 million and RMB404.3 million). The inventory turnover days and trade receivable turnover days were 116 days and 38 days respectively, compared to 92 days and 28 days respectively as at 31 December 2010. During the period compared to that of last year, the increase in inventory turnover days as compared with last year were due to the weaker than expected product demand and consumption of cotton inventories. Increase in trade and bills receivables turnover days was mainly attributable to the increase in bills receivable as more customers settled accounts receivable by post-dated bank drafts.

The Group's borrowings increased to RMB1,877 million due to the issuance of senior note of US$200 million on 19 January 2011 (As at 31 December 2010: RMB1,240 million).

As at 30 June 2011, the Group's financial ratios were as follows:

	30 June 2011	31 December 2010
Current ratio	**1.92**	1.43
Debt to equity ratio[1]	**0.80**	0.56
Net debt to equity ratio[2]	**0.50**	0.29

1 Based on total borrowings over total equity

2 Based on total borrowings net of cash and cash equivalents and pledged bank deposits over total equity

Foreign exchange risk

The Group mainly operated in mainland China and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in RMB and USD, among which, most of the sales revenue was denominated in RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular reviews and monitoring its foreign exchange exposures. The Group did not engage in any foreign exchange hedging activities during the period under review.

Capital expenditure

For the six months ended 30 June 2011, the capital expenditure of the Group amounted to approximately RMB275.7 million (For the six months ended 30 June 2010: RMB154.3 million). It mainly represents additions to plant and equipment for our production plants in Vietnam.

Disclosure pursuant to Rule 13.18 of the Listing Rules

As announced by the Company on 26 April 2010, by an agreement dated 26 April 2010 ("2010 Facility Agreement") entered into by, among others, the Company as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a loan facility ("2010 Facility") of up to the principal amount of US$43,000,000 for refinancing of the Group's existing indebtedness. The 2010 Facility is for a term of three years and is unsecured. The 2010 Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong Tianzhu shall remain the chairman of the Company's board of directors and the Company's single largest shareholder. A breach of such requirement will constitute an event of default under the 2010 Facility Agreement, and as a result, the 2010 Facility is liable to be declared immediately due and repayable. The occurrence of such circumstance may trigger the cross default provisions of other banking/credit facilities available to the Group and, as a possible consequence, these other facilities may also be declared to be immediately due and repayable. The Group has fully repaid the principal and interest on 18 February 2011.

As announced by the Company on 12 January 2011, the Company and certain of its subsidiaries entered into a purchase agreement with Deutsche Bank AG, Singapore Branch, in connection with the issue of US$200 million 7.625% senior notes ("Notes") due 2016. The indenture ("Indenture") governing the Notes provides that upon the occurrence of a change of control triggering event, the Company will make an offer to purchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the offer to purchase payment date. A change of control under the Indenture includes, among others, any transaction that results in either (i) the Permitted Holders (as defined below), which include Mr. Hong Tianzhu, the controlling shareholder of the Company and companies controlled by him, being the beneficial owners (as such term is used in the Indenture) of less than 50.1% of the total voting power of the voting stock of the Company; or (ii) any person or group (as such terms are used in the Indenture) is or becomes the beneficial owner, directly or indirectly, of total voting power of the voting stock of the Company greater than such total voting power held beneficially by the Permitted Holders. "Permitted Holders" means any or all of (1) Messrs. Hong Tianzhu and Zhu Yongxiang; (2) any affiliate of the persons specified in paragraph (1); and (3) any person both the capital stock and the voting stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by persons specified in paragraphs (1) and (2) above.

As announced by the Company on 14 July 2011, by an agreement dated 13 July 2011 ("2011 Facility Agreement") entered into by, among others, a wholly-owned subsidiary of the Company as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a loan facility ("2011 Facility") of up to the principal amount of US$60,000,000 for our expansion of the Phase III project in Vietnam. The 2011 Facility shall be fully repaid in July 2018 and is secured by a mortgage of equipment and machinery. The 2011 Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong Tianzhu shall remain the Chief Executive Officer of the Group and the Company's single largest shareholder. A breach of such requirement will constitute an event of default under the 2011 Facility Agreement, and as a result, the 2011 Facility is liable to be declared immediately due and repayable. The occurrence of such circumstance may trigger the cross default provisions of other banking/credit facilities available to the Group and as a possible consequence, these other facilities may also be declared to be immediately due and repayable.

As at the date of this announcement, the Company is in compliance with the Indenture and the 2011 Facility Agreement.

Pledge of assets

As at 30 June 2011, the Group's bank deposits, land use rights and buildings, machinery and equipment with an aggregate net book value of approximately RMB558.2 million were pledged to secure for banking facilities for the purposes of working capital and purchases of fixed assets for the Group (as at 31 December 2010: RMB575.3 million).

Human resources

As at 30 June 2011, the Group had a total workforce of 13,596, representing an increase of 5% compared with that at the end of last year (As at 31 December 2010: 12,925), of whom 9,459 were based in the regional headquarters in Shanghai and our manufacturing plants in mainland China. The remaining 4,137 were located in regions outside mainland China including Vietnam, Hong Kong and Macau. The Group will continuously optimize the workforce structure and offer its staff with competitive remuneration schemes. The Group is committed to nurturing a learning and sharing culture in the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success depends on the contributions of our skilled and motivated staff in all our functional divisions.

Dividend policy

The Board intends to maintain a long term dividend payout ratio providing shareholders with an equitable return. The Board has resolved to declare an interim dividend of 10 HK cents per share in respect of the six months ended 30 June 2011 to the shareholders whose names appear on the register of members of the Company in Hong Kong on 15 September 2011.

Closure of register of members

The register of members of the Company will be closed from 12 September 2011 to 15 September 2011, both days inclusive, during which period no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 28 September 2011), shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 9 September 2011.

Purchase, sale and redemption of the listed securities of the Company

For the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Group was committed to maintaining high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The Board comprises four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Code of Corporate Governance Practices ("Code Provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange. During the reporting period, the Company had complied with the Code Provisions except for the following deviations:

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Hong Tianzhu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly every three months to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Hong Tianzhu and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

Model Code for securities transactions by Directors

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"). After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors' securities transactions during the reporting period.

Audit committee

The Company has established an audit committee which comprises three independent non-executive Directors, namely, Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Code Provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The audit committee has discussed with management and reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2011.

Remuneration committee

The remuneration committee of the Board comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi and the chairman and executive Director Mr. Hong Tianzhu. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board of Directors.

By order of the Board
Texhong Textile Group Limited
Hong Tianzhu
Chairman

Hong Kong, 19 August 2011

As at the date of this announcement, the executive Directors are Mr. Hong Tianzhu, Mr. Zhu Yongxiang, Mr. Tang Daoping and Mr. Gong Zhao, and the independent non-executive Directors are Mr. Cheng Longdi, Mr. Ting Leung Huel, Stephen and Ms. Zhu Lanfen.