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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

- Revenue increased by 25.6% to RMB6,873 million.
- Gross profit margin decreased by 15.8 percentage point to 8.1%.
- Net profit margin decreased by 14.5 percentage point to 0.9%.
- Profit for the year dropped by 92.7% to RMB61 million.
- Earnings per share dropped to RMB0.07.

The board (the "Board") of directors (the "Directors") of Texhong Textile Group Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2011, together with the comparative figures in 2010.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	2	**6,872,713**	5,471,598
Cost of sales	4	**(6,317,128)**	(4,162,989)
Gross profit		**555,585**	1,308,609
Selling and distribution costs	4	**(151,781)**	(128,930)
General and administrative expenses	4	**(208,833)**	(204,867)
Other income	3	**21,993**	49,517
Other losses – net	3	**(58,742)**	(39,292)
Operating profit		**158,222**	985,037
Finance income		**7,948**	2,792
Finance costs		**(85,680)**	(46,358)
Finance costs – net	5	**(77,732)**	(43,566)
Share of profit of an associate		**2,985**	8,702
Profit before income tax		**83,475**	950,173
Income tax expense	6	**(22,200)**	(109,039)
Profit for the year		**61,275**	841,134
Profit attributable to:			
Owners of the Company		**61,256**	841,225
Non-controlling interests		**19**	(91)
		61,275	841,134
Earnings per share attributable to equity holders of the Company during the year (expressed in RMB per share)			
Basic earnings per share	7	**0.07**	0.95
Diluted earnings per share	7	**0.07**	0.95
Dividends	8	**72,304**	211,181

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Profit for the year		**61,275**	841,134
Other comprehensive income:			
Revaluation of buildings			
– gross		**–**	32,181
– deferred income tax		**–**	(7,665)
Other comprehensive income for the year		**61,275**	24,516
Total comprehensive income for the year		**61,275**	865,650
Attributable to:			
Owners of the Company		**61,256**	865,741
Non-controlling interests		**19**	(91)
		61,275	865,650

CONSOLIDATED BALANCE SHEET
As at 31 December

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**185,711**	151,075
Property, plant and equipment		**1,991,777**	1,798,930
Investment in an associate		**46,545**	43,560
Deferred income tax assets		**49,638**	24,430
		2,273,671	2,017,995
Current assets			
Inventories		**1,288,561**	1,386,851
Trade and bills receivables	*9*	**640,086**	404,319
Prepayments, deposits and other receivables		**232,719**	495,378
Pledged bank deposits		**31,907**	35,231
Cash and cash equivalents		**463,407**	569,466
		2,656,680	2,891,245
Total assets		**4,930,351**	4,909,240
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Ordinary shares		**94,064**	94,064
Share premium		**189,218**	189,218
Other reserves		**423,853**	419,299
Retained earnings			
– Proposed final dividend		**–**	126,243
– Others		**1,364,673**	1,380,275
		2,071,808	2,209,099
Non-controlling interests		**95**	76
Total equity		**2,071,903**	2,209,175

		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**1,712,275**	629,806
Deferred income tax liabilities		**52,401**	49,275
		1,764,676	679,081
Current liabilities			
Trade and bills payables	*10*	**502,408**	859,402
Accruals and other payables		**417,103**	476,533
Current income tax liabilities		**(14,277)**	41,668
Borrowings		**143,519**	609,912
Derivative financial instruments	*11*	**45,019**	33,469
		1,093,772	2,020,984
Total liabilities		**2,858,448**	2,700,065
Total equity and liabilities		**4,930,351**	4,909,240
Net current assets		**1,562,908**	870,261
Total assets less current liabilities		**3,836,579**	2,888,256

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Group is 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.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2012.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of Texhong Textile Group Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011 that are relevant to the Group.

- 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 Group has applied this new accounting police; however it has no impact on the financial statements.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group's assessment of the impact of these new and amended standards is set out below.

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

  The Group is yet to assess these standards' full impact and intends to adopt these standards no later than the accounting period beginning on or after 1 January 2013. There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. REVENUE AND SEGMENT INFORMATION

(i) Revenue

The Group is principally engaged in the manufacturing and sale of yarns, grey fabrics and garment fabrics. Revenue/Turnover recognised represented sales of goods, net of value-added tax.

(ii) Segment information

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 year ended 31 December 2011 is as follows:

	Year ended 31 December 2011						
	Yarn				Grey fabrics	Garment fabrics	
	Mainland China	Vietnam	Macao	Hong Kong	Mainland China	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	**4,978,379**	**2,610,609**	**4,672,946**	**129,352**	**965,843**	**117,163**	**13,474,292**
Inter-segment revenue	**(368,969)**	**(2,338,910)**	**(3,765,149)**	**(128,551)**	**–**	**–**	**(6,601,579)**
Revenue (from external customers)	**4,609,410**	**271,699**	**907,797**	**801**	**965,843**	**117,163**	**6,872,713**
Segment results	**82,088**	**134,155**	**(3,156)**	**5,116**	**1,263**	**12,426**	**231,892**
Unallocated expenses							**(73,670)**
Operating results							**158,222**
Finance income							**7,948**
Finance costs							**(85,680)**
Share of profit of an associate							**2,985**
Income tax expense							**(22,200)**
Profit for the year							**61,275**
Depreciation and amortisation	**(76,595)**	**(75,617)**	**(638)**	**(115)**	**(21,473)**	**(1,903)**	**(176,341)**

The segment information for the year ended 31 December 2010 is as follows:

	Year ended 31 December 2010						
	Yarn				Grey fabrics	Garment fabrics	
	Mainland China	Vietnam	Macao	Hong Kong	Mainland China	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	4,285,738	1,646,082	1,847,828	135,363	918,845	143,306	8,977,162
Inter-segment revenue	(489,404)	(1,108,949)	(1,794,652)	(112,559)	–	–	(3,505,564)
Revenue (from external customers)	3,796,334	537,133	53,176	22,804	918,845	143,306	5,471,598
Segment results	552,984	254,800	149,265	926	39,324	15,126	1,012,425
Unallocated expenses							(27,388)
Operating results							985,037
Finance income							2,792
Finance costs							(46,358)
Share of profit of an associate							8,702
Income tax expense							(109,039)
Profit for the year							841,134
Depreciation and amortisation	(68,038)	(53,189)	(9)	(192)	(20,730)	(2,310)	(144,468)

The segment assets and liabilities as at 31 December 2011 are as follows:

	As at 31 December 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	2,462,781	1,395,961	379,882	12,285	4,250,909	504,302	95,407	4,850,618
Unallocated assets								79,733
Total assets of the Group								4,930,351
Total segment liabilities					(1,331,788)	(83,687)	(9,963)	(1,425,438)
Unallocated liabilities								(1,433,010)
Total liabilities of the Group								(2,858,448)
Capital expenditure	148,665	262,874	886	10	412,435	12,315	44	424,794

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

	As at 31 December 2010							
	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	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. OTHER INCOME AND LOSSES, NET

	2011	2010
	RMB'000	*RMB'000*
Other income		
Subsidy income	**21,993**	49,517
Other losses – net		
Derivative financial liability at fair value through profit or loss:		
– Unrealised loss	**(38,546)**	(33,532)
– Realised loss	**(13,445)**	(8,180)
Net foreign exchange losses	**(20,056)**	(2,742)
Gain from Notes repurchases	**10,240**	–
Others	**3,065**	5,162
Total other losses – net	**(58,742)**	(39,292)

The subsidy income mainly related to incentives for development in Xuzhou, Mainland China and grants provided by municipal governments based on the amounts of value added tax and income tax paid. The Group received all the subsidy income in the same year and there was no future obligation related to those subsidy income..

Gain from Notes repurchases represented the repurchases and cancellation of Notes, issued in 2011 with the amount of US$7 million.

4. EXPENSES BY NATURE

	2011	2010
	RMB'000	*RMB'000*
Raw materials and consumables used	**5,570,002**	3,767,502
Changes in inventories of finished goods and work in progress	**(84,472)**	(262,003)
Employment costs, including directors' emoluments	**437,338**	391,074
Depreciation and amortisation	**176,341**	144,468
Loss on disposal of property, plant and equipment	**2,152**	4,014
Office expense	**30,817**	24,763
Utilities	**282,627**	241,017
Transportation	**90,793**	90,291
Auditor's remuneration	**3,846**	5,475
Lease rental expense for buildings and machinery	**13,014**	12,974
Provision for/(reversal) of impairment of trade receivables	**479**	(1,672)
Provision for decline in the value of inventories	**78,669**	581
Other expenses	**76,136**	78,302
Total cost of sales, selling and distribution costs and general and administrative expenses	**6,677,742**	4,496,786

5. FINANCE INCOME AND COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest expense – bank borrowings wholly repayable within five years	**162,456**	70,449
Less: amount capitalised in property, plant and equipment	**(353)**	(126)
	162,103	70,323
Exchange gain on financing activities	**(76,423)**	(23,965)
Finance costs – net	**85,680**	46,358
Finance income – interest income on bank deposits	**(7,948)**	(2,792)
Net finance costs	**77,732**	43,566

6. INCOME TAX EXPENSES

The amount of income tax charged to the consolidation income statement represents:

	2011	2010
	RMB'000	*RMB'000*
Current tax on profits for the year	**42,999**	113,556
Adjustment in respect of prior years	**1,283**	(161)
Deferred income tax	**(22,082)**	(4,356)
	22,200	109,039

(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 year (2010: Nil).

(ii) Mainland China enterprise income tax ("EIT")

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

Effective from 1 January 2008, the subsidiaries established in Mainland China are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007.

Except for Texhong (China) Investment Co., Ltd., Shanghai Texhong Trading Co., Ltd. and Shanghai Hongrun Textile Co., Ltd., all other subsidiaries 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 at rate of 25% (2010: 25%).

As approved by the relevant Tax Bureau in Vietnam, one subsidiary 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 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 year. (2010: Nil).

(iv) Other income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts or the Business Companies Acts, 2004 of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The subsidiary established in Macao is subject to income tax 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 year (2010: Nil).

7. 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 year.

	2011	2010
Profit attributable to equity holders of the Company *(RMB'000)*	**61,256**	841,225
Weighted average number of ordinary shares in issue *(thousands)*	**884,681**	884,681
Basic earnings per share *(RMB per share)*	**0.07**	0.95

(b) Diluted

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

8. DIVIDENDS

The dividends paid in 2011 and 2010 were RMB198,547,000 (HK$0.27 per ordinary share) and RMB143,307,000 (HK$0.185 per ordinary share) respectively. The directors did not recommend the payment of a final dividend for the year ended 31 December 2011.

	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid of HK$0.1 (2010: HK$0.11) per ordinary share	**72,304**	84,938
Proposed final dividend of nil (2010: HK$0.17) per ordinary share	**–**	126,243
	72,304	211,181

9. TRADE AND BILLS RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**190,226**	124,381
Less: provision for impairment	**(1,743)**	(1,264)
	188,483	123,117
Bills receivables	**451,603**	281,202
	640,086	404,319

The fair values of trade and bills receivables approximate their carrying amounts.

The Group generally grants credit terms of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries. The ageing analysis of the trade and bills receivables by invoice date is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 30 days	**297,279**	301,569
31 to 90 days	**42,269**	77,305
91 to 180 days	**299,670**	25,800
181 days to 1 year	**2,305**	–
Over 1 year	**306**	909
	641,829	405,583
Less: provision for impairment	**(1,743)**	(1,264)
Trade and bills receivables — net	**640,086**	404,319

10. TRADE AND BILLS PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**115,890**	155,443
Bills payables	**386,518**	703,959
	502,408	859,402

As at 31 December 2011, included in the trade payables was amount due to an associate of RMB345,000 (2010: RMB50,000).

The ageing analysis of the trade and bills payables (including amount due to a an associate of trading in nature) is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within 90 days	**99,188**	634,853
91 to 180 days	**394,022**	218,025
181 days to 1 year	**5,282**	4,646
Over 1 year	**3,916**	1,878
	502,408	859,402

11. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	RMB'000	*RMB'000*
Interest rate swap contracts	**45,019**	241
Futures contracts	**–**	33,228
	45,019	33,469

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

The interest rate swap contracts as at 31 December 2011 comprised two contracts with national principal amounts totalling RMB1,265,851,000 (2010: RMB17,881,000).

At 31 December 2010, the future contracts represented the future trading for cotton in the active futures market. The contract had been completed in 2011.

CHAIRMAN STATEMENT

On behalf of the board of directors (the "Board") of the Company, I am pleased to present to the shareholders of the Company the annual results of the Group for the year ended 31 December 2011.

Results

In 2011, raw material prices continued their extremely volatile fluctuation. Our major raw material, cotton, reached a record high price of more than RMB30,000 per ton and then dropped by about 40% within the year. This created unimaginable difficulties for the Group in raw materials purchases and cost control. Meanwhile, global market sentiment was severely affected by the European debt crisis. Customers were very price sensitive and reluctant to place orders. The survival of Chinese textile players was under big challenge.

In view of the uncertain market conditions especially in the second half of the year, the Group took immediate actions in adjusting the product pricing policy and raw material procurement strategy. Sales of low count yarns and denim yarns then largely rebound and an alternative source of raw material supply with cheaper cost has been established. Such actions helped largely reduce the Group's inventory level and exposure on raw material price risk. Financial performance became stabilized and a minimal profit had been recorded for 2011 although it was substantially lower as compared to 2010.

During the year, the Group achieved total revenue of RMB6,872.7 million, representing an increase of 25.6% as compared to last year. Profit for the year dropped by 92.7% to RMB61.3 million. Earnings per share was RMB0.07 in 2011, representing a decrease of 92.6% as compared to 2010.

Outlook

Raw material procurement strategy becomes more and more crucial to our financial performance especially for the increasingly volatile cotton market. We will continue to focus on expanding and strengthening our procurement team. While further strengthening the relationship with those core raw material suppliers, we continue to explore new fibres for developing new products and new sources of raw material supply with better quality and more competitive cost. We strongly believe that such a move will improve our profitability and competitiveness. This also helps achieve a more stable financial performance. Securing different sources of low cost raw materials supply creates a natural cushion for us at all times especially when raw material price is in an overall downward trend.

After completion of the 190,000 spindle project in Vietnam in April 2011, we have already achieved about one million spindles yarn production capacity. In relation to another piece of land of about 67 hectares in Vietnam, this expansion plan has been delayed since the land developer is unable to handover the land for commencement of construction work. The land developer is currently unable to confirm the date for the land handover. While we closely monitor its progress, we have already found another site in northern Vietnam to pursue our expansion plan. We expect to kick start a 70,000 spindle expansion project in northern Vietnam within 2012 to capture the market opportunity in southern China.

In the meantime, we will develop yarn trading business through exploring new potential sources of quality supplies in India, Pakistan and other south-east Asian countries. Not to mention the total demand in China, with the support of our existing sales channel and customer base, we already see a huge potential in yarn trading business in China. This does not involve substantial investment in capital expenditure and human resources, while we can also better serve our existing customers since they not only demand for our core-spun yarns but also have huge demand in other general types of yarns which we do not currently manufacture.

In 2011, the Group had been awarded for a consecutive eight years as one of the top 20 competitive cotton textile enterprises by China National Textile and Apparel Council. Competition in the textile industry is extremely severe as this industry has a long history of development. Yet, this traditional manufacturing industry is also characterized by chic and innovation with huge domestic demand. We believe that we will be able to deliver outstanding results and achieve significant growth if we can grasp the opportunities in the market with our passionate creativity and great breadth of innovation.

We will continue to promote unified corporate values and guidelines and persist with our operating strategy which focus on "professionalism, perfectionism and globalization". We target to maintain scale expansion and explore differentiated products by utilizing our plants in Vietnam and the PRC, mainly targeting at the extensive consumption market in the PRC. Although it was a tough year in 2011, we still anticipate that the Group will overcome those difficulties and maintain a steady growth in the years to come with a target of earning over RMB10 billion revenue in the near future.

Acknowledgement

On behalf of the Board, I would like to express my sincere thanks to all the shareholders and customers for their continuous support. Also, I would like to take this opportunity to thank all our dedicated staff members for their valuable contributions during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present the annual results of the Group for the year ended 31 December 2011 to the shareholders. Due to the extreme volatile fluctuation in cotton price, the Group's performance was severely affected in 2011. However, the Group still achieved a 25.6% growth in turnover to RMB6,872.7 million as compared to that of 2010. Profit for the year dropped substantially by 92.7% to RMB61.3 million, mainly attributable to the profit margin decline as a result of the sharp drop in product selling prices in line with cotton price within a short period of time. Earnings per share also dropped by 92.6% to RMB0.07 from RMB0.95 for the corresponding period in 2010.

Industry Review

In 2011, there was a general slowdown in the PRC's textile industry in terms of output value, profit and investment growth. This was a reflection that textile businesses were facing tough challenges arising from the fluctuation in raw material prices, the increase in production costs and the sluggishness of the international demand.

According to the China National Textile and Apparel Council ("CNTAC"), the production growth of the textile industry experienced a continued slowdown in 2011. From January to November 2011, textile businesses with a scale of over 36,000 enterprises on a nationwide basis realized a total industrial output value of RMB4,952.64 billion, representing a year-on-year increase of 27.5% when compared to January to November 2010. However, this growth in output value was slowed down by 4.1 percentage point when compared to the first quarter of 2011.

The investment growth of the textile industry was also slowing down. From January to December last year, the actual total investment in fixed assets of the textile industry amounted to RMB366.8 billion, representing an increase of 30.91% over the same period last year. The number of new projects was 7,551, representing a decrease of 0.05% when compared to that of the same period last year. The slowdown in the growth of new projects was also a reflection that there was a fall in market confidence and investment sentiment.

According to customs data, the export value of the textile products and apparels across the PRC from January to December 2011 was US$247.9 billion, representing a year-on-year increase of 20% when compared to the corresponding period in 2010. We understand that this growth was mainly driven by increase in selling prices instead of volume growth and was slowed down by 3.6 percentage point when compared to 2010. While some of the export orders were transferring to the surrounding low-cost countries, the terminal demand from the international market was not optimistic. The textile industry is expected to be exposed to continued complications of the internal and external environment in 2012. It will undergo stepped up transformation and upgrading in order to stay ahead of the setback in the market.

Business Review

For the year ended 31 December 2011, the turnover of the Group was RMB6,873 million, representing an increase of 25.6% as compared with the corresponding period last year. The turnover comprises sales of yarns, grey fabrics and garment fabrics. Yarns continue to be the major product of the Group. Turnover thereof amounted to RMB5,790 million and accounted for 84.2% of the Group's total turnover for the year ended 31 December 2011. Compared with the corresponding period in 2010, sales volume of yarns only increased by 5.6% to 189,824 tonnes due to the weak demand on low-count yarns and denim yarns in the first half of 2011. The increase in turnover thereof was mainly contributed by the increase in product selling prices. The average unit selling price of yarn increased by 24.3% to RMB30,500 per ton from RMB24,539 per ton for the corresponding period in 2010. The turnover of our grey fabrics amounted to RMB966 million and accounted for 14.1% of the Group's total turnover for the year ended 31 December 2011.

Our overall gross profit margin decreased to 8.1% from 23.9% for the corresponding period in 2010. Since cotton is our major raw material, our product selling prices and profit margin are highly correlated to the cotton price fluctuation. During 2011, our product selling prices dropped sharply and remained at a rather low level following the cotton price movements during the year, our gross profit margin had been badly hit. Although our inventories have been reduced from the peak during 2011, a provision of about RMB79 million for inventories write-down was made and maintained as at 31 December 2011.

The Phase III 190,000 spindles expansion project in our plant in Vietnam commenced production in April 2011. However, due to the unsatisfactory market sentiment and demand during 2011, the completion of the Phase III project almost did not have any contribution to the Group's performance. In 2011, cotton yarns, denim yarns and synthetic fibre yarns represented 46.3%, 27.9% and 25.8% of the total sales volume of yarns respectively.

The Group has further strengthened the strategic cooperation with INVISTA North America S.à.r.l ("Invista") and Lenzing Fibers (Shanghai) Co., Ltd. ("Lenzing"). The Group also continued to produce different high-end non-spandex core-spun yarns, high-end denim yarns and high-end knitted yarns using the cellulose-based Tencel® fiber, Modal® fiber and viscose fiber supplied by Lenzing. In addition, we continued to apply environmental friendly polyester to produce blended yarns with other fibers. The Group also strengthened cooperation with Toray of Japan. Our research and development centre in Changzhou has been developing and improving a wide variety of products in order to secure our leading position in the industry and to meet the demand of quality customers for different high-end products.

FUTURE OUTLOOK

After a year of highly volatile cotton market, we expect cotton price to stabilize in 2012 as the PRC government announced that they had purchased more than 2 million tons of cotton in the open market since October 2011. Although the market demand has not yet fully restored to the normal level, the market demand and pricing have bottomed out. Even though the expansion on another piece of land of about 67 hectares has been delayed, our production capability and efficiency have been strengthened after completion of the Phase III project in Vietnam. We anticipate our sales volume will have a satisfactory growth in 2012 as compared to 2011. External and domestic demand for textile products remains huge in the PRC no matter in good times or bad times.

The Group has been awarded as one of the top 20 enterprises in the Chinese cotton textiles industry for a consecutive eight years by China National Textile and Apparel Council. Looking forward, we aim at improving our profitability through optimizing our existing product mix, developing new products that cater for the trend and demand of the market and fully leveraging the cost advantages of our plant in Vietnam. Coupled with our expansion of production capacity, we aim to sustain a high growth in profit and revenue and reinforce our competitiveness and leading position within the industry.

FINANCIAL REVIEW

Turnover

The Group's turnover comprises the sales of yarns, grey fabrics and garment fabrics. Although product selling prices dropped sharply from the peak during 2011, product selling prices in average were still higher as compared to 2010, the sales of yarns grew by about 31.3% in 2011. Turnover analyses of the Group by products are shown below.

	2011	**Gross profit margin**	2010	Gross profit margin	Turnover change between 2011 and 2010	Margin change between 2011 and 2010
	RMB'000		*RMB'000*			*percentage points*
Stretchable core-spun yarns						
— Cotton	**2,430,067**	**6.3%**	1,979,882	31.9%	22.7%	–25.6
— Denim	**631,826**	**13.6%**	526,353	24.9%	20.0%	–11.3
— Synthetic Fiber	**631,338**	**13.7%**	465,407	18.8%	35.7%	–5.0
Other yarns						
— Cotton	**515,051**	**–1.9%**	205,772	19.7%	150.3%	–21.6
— Denim	**902,493**	**7.3%**	965,127	24.1%	–6.5%	–16.7
— Synthetic Fiber	**678,932**	**14.7%**	266,906	24.8%	154.4%	–10.1
Fabrics						
— Stretchable grey fabrics	**700,556**	**6.6%**	687,920	10.6%	1.8%	–4.0
— Other grey fabrics	**265,287**	**3.0%**	230,925	10.2%	14.9%	–7.2
— Garment fabrics	**117,163**	**16.8%**	143,306	15.7%	–18.2%	1.1
Total	**6,872,713**	**8.1%**	5,471,598	23.9%	25.6%	–15.8

	Sales Volume		**Sales Volume change between 2011 and 2010**	**Selling price**		**Selling Price change between 2011 and 2010**
	2011	2010		**2011**	2010	
				RMB	*RMB*	
Stretchable core-spun yarns (Ton/RMB per ton)						
— Cotton	**70,610**	68,040	3.8%	**34,415**	29,099	18.3%
— Denim	**20,518**	23,196	–11.5%	**30,794**	22,692	35.7%
— Synthetic Fiber	**23,374**	19,885	17.5%	**27,010**	23,405	15.4%
Other yarns (Ton/RMB per ton)						
— Cotton	**17,339**	9,184	88.8%	**29,705**	22,405	32.6%
— Denim	**32,418**	47,731	–32.1%	**27,839**	20,220	37.7%
— Synthetic Fiber	**25,565**	11,655	119.3%	**26,557**	22,901	16.0%
Fabrics (Million meters/ RMB per meter)						
— Stretchable grey fabrics	**56.1**	65.5	–14.4%	**12.5**	10.5	19.0%
— Other grey fabrics	**23.1**	25.9	–10.8%	**11.5**	8.9	29.2%
— Garment fabrics	**5.8**	9.6	–39.6%	**20.2**	14.9	35.6%

The Chinese textile market is the Group's major market, accounting for 88% of our total turnover. The ten largest customers of the Group for 2011 are as follows:

Zhejiang Limayunshan Textile Co., Ltd.
Foshan Seazon Textile & Garment Co., Ltd.
Zhejiang Jiaermei Textile Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Toray International, Inc.
Shaoguan Shunchang Weaving Factory Co., Ltd.
Ningbo Daqian Textile Co., Ltd.
Yixing Lucky G and L Denim Co., Ltd.
Zhejiang Yuanfeng Textile Co., Ltd
Zhejiang Seven Star Textile Co., Ltd

The Group has more than 1,600 customers. As the Group produces differentiated products, the Group does not rely on the orders from any single customer. The ten largest customers only accounted for 18.85% of the total turnover of 2011. The ten largest customers mentioned above have more than 5 years' trade relationship with the Group.

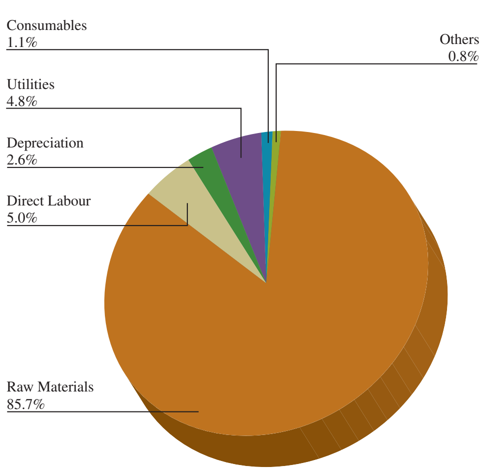
Gross profit and gross profit margin

With the sharp decline in cotton price during 2011, selling prices also dropped sharply. The gross profit of the Group decreased from RMB1,309 million to RMB556 million, representing a decrease of 57.5% as compared to 2010. The overall gross profit margin also decreased by 15.8 percentage point as compared with 2010.

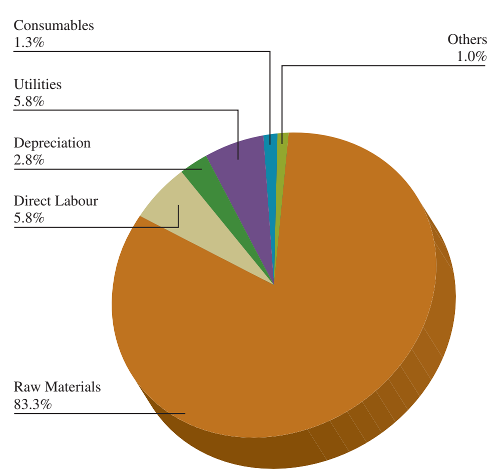
Cost structure

Cost of sales increased by 51.7% to RMB6,317 million, which was mainly driven by the increase in raw material cost. Raw material cost accounted for about 85.7% of the total cost of sales of 2011. Cotton is our major raw material.

The breakdown of our cost of sales is shown below:



2011



2010

Selling and distribution costs

For the year ended 31 December 2011, the Group's selling and distribution costs amounted to RMB152 million, representing an increase of 17.7% compared to that of 2010. The increase was attributable to the increase in additional government charges associated with the value added tax paid in the PRC.

General and administrative expenses

During 2011, the Group's general and administrative expenses increased by 1.9% to RMB209 million, which amounted to 3% of the Group's turnover.

Cash flow

	2011	2010
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(35,755)**	470,143
Net cash used in investing activities	**(440,984)**	(340,114)
Net cash generated from financing activities	**370,680**	47,434
Cash and cash equivalents at end of the year	**463,407**	569,466

For the year ended 31 December 2011, net cash used in operating activities amounted to RMB36 million, which was mainly used for reducing bills payables by excess cash. The net cash used in investing activities amounted to RMB441 million, which was mainly used for the payment of capital expenditure of new plants built in Vietnam and the upgrading of machinery and equipment in the PRC. During the year under review, the net cash generated from financing activities amounted to RMB371 million, mainly contributed by the issuance of senior unsecured notes and a project financing in Vietnam.

Liquidities and financial resources

As at 31 December 2011, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB495.3 million (as at 31 December 2010: RMB604.7 million). The Group's inventories decreased by RMB98.3 million to RMB1,288.6 million and our trade and bills receivables increased by RMB235.8 million to RMB640.1 million (as at 31 December 2010: RMB1,386.9 million and RMB404.3 million respectively). The inventory turnover days and trade and bill receivable turnover days were 76 days and 27 days respectively, compared to 92 days and 28 days in 2010. Decrease in inventory turnover days was attributable to the improvement of our inventory control.

Trade and bills payables decreased by RMB357 million to RMB502.4 million as at 31 December 2011 (as at 31 December 2010: RMB859.4 million), the turnover days were 39 days. In the second half of 2011, the Group reduced the issuance of letter of credit due to high cash balance.

The Group increased the total bank borrowings by RMB616 million to RMB1,856 million as at 31 December 2011 mainly due to the issuance of the senior unsecured notes of US$200 million in January 2011. Current bank borrowings decreased by RMB466 million to RMB144 million while non-current bank borrowings increased by RMB1,082 million to RMB1,712 million. To make the capital structure more capable for the long-term development of the Group's business, the Group completed the issue of unsecured five-year senior notes of US$200 million and drawdown of a US$60 million project financing which helped further optimize the proportion between long-term loan and short-term loan of the Group.

As at 31 December 2011, the Group's financial ratios were as follows:

	2011	2010
Current ratio	**2.43**	1.43
Debt to equity ratio	**0.90**	0.56
Net debt to equity ratio	**0.66**	0.29

Borrowings

As at 31 December 2011, the Group's total bank borrowings amounted to RMB1,856 million, among which RMB170 million (9.2%) was denominated in Renminbi, RMB1,680 million (90.5%) was denominated in United States dollars ("US$") and RMB6 million (0.3%) was denominated in Hong Kong dollars ("HK$"). These bank borrowings borne interest at interest rates ranging from 2.1% to 7.625% per annum (2010: 2.1% to 6.8%).

As at 31 December 2011, the Group has outstanding current bank borrowings of RMB144 million (2010: RMB610 million). Current bank borrowings managed to decrease after further optimization of debt profile.

In respect of the Group's borrowings, the Group has to comply with certain restrictive financial covenants.

Bank borrowings of RMB476.6 million (2010: RMB277.5 million) were secured by the pledge of the Group's land use rights with a net book amount of RMB50.9 million (2010: RMB52.1 million) and the pledge of the Group's property, plant and equipment with a net book amount of approximately RMB387.2 million (2010: RMB487.9 million) as at 31 December 2011.

Foreign exchange risk

The Group mainly operates in the PRC and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in RMB and US$. Foreign exchange risk may also arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures. The Group's exposure to foreign exchange risk is mainly attributable to its borrowings denominated in US$.

Since the majority of the Group's income is settled in RMB, with the expectation of RMB appreciation against US$, the Group has not taken foreign exchange hedging on expenses and borrowings denominated in US$ and Vietnam Dong.

Capital expenditures

For the year ended 31 December 2011, the capital expenditure of the Group amounted to RMB425 million (2010: RMB485 million). It was mainly comprised of the investment of fixed asset in the new plants in Vietnam.

Contingent liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

Disclosure pursuant to Rule 13.18 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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 in 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 ("Facility Agreement") entered into by, among others, Texhong Renze Textile Joint Stock Co. (the "Borrower"), formerly known as "Texhong Vietnam Textile Joint Stock Company", a wholly-owned subsidiary of the Company as borrower, the Company as one of the guarantors and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a term loan facility ("Facility") of up to the aggregate principal amount of US$60 million to finance the Phase III expansion of the Borrower's factory in Vietnam. The Facility shall be fully repaid in July 2018 and is secured by a mortgage of the Borrower's equipment and machinery. The amount of the Facility represents approximately 17% of the total amount of banking/credit facilities (including the Facility) presently available to the Group. The Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong Tianzhu ("Mr. Hong") shall remain the chief executive officer of the Group, the single largest shareholder of the Company and own, directly or indirectly, more than 25% of the total issued share capital of the Company. A breach of such requirement will constitute an event of default under the Facility Agreement, and as a result, the Facility is liable to be declared immediately due and payable. 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 payable.

As at the date of this announcement, the Company is in compliance with the Indenture and the Facility Agreement. In 2011, the Company repurchased and cancelled notional amount of US$7 million of the Notes.

Human resources

As at 31 December 2011, the Group had a total workforce of 13,368 (as at 31 December 2010: 12,925), of whom 8,955 were located throughout our manufacturing plants in the PRC, 223 were based in Shanghai, 4,178 were located at the Group's production base in Vietnam and 12 were based in Hong Kong and Macao. New employees were recruited to cater for the Group's business expansion during the year. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to nurturing a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contribution of all functional divisions comprising skilled and motivated staff.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio of about 30% of the Group's net profit for the year, providing shareholders with an equitable return. The Board does not recommend final dividend due to unsatisfactory result for 2011. An interim dividend of 10 HK cents per share was paid by the Company on 28 September 2011.

Closure of register of members

The Register of Members of the Company will be closed from 1 May 2012 to 7 May 2012, both days inclusive, during which period no transfer of shares can be registered. To qualify for attendance at the forthcoming Annual General Meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Boardroom Share Registrars (HK) Limited, at 12th Floor, The Lee Gardens, 33 Hysan Avenue, Causeway Bay, Hong Kong, no later than 4:30 p.m. on 30 April 2012.

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or its subsidiaries during the year ended 31 December 2011.

Corporate Governance

The Company 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 on Corporate Governance Practices (the "Code Provisions") set out in Appendix 14 to the Listing Rules on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the reporting period, the Company had complied with the Code Provisions except for the following deviation:

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. As announced by the Company on 10 October 2011, Mr. Zhu Yongxiang had been appointed as the co-chief executive officer 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 standards 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, including Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Professor 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 met on a semi-annual basis and the review covers the findings of internal auditors, internal control, risk management and financial reporting matters.

The audit committee has discussed with the management and reviewed the annual results for the year ended 31 December 2011.

Remuneration committee

The remuneration committee of the Directors comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Professor Cheng Longdi and the executive Director and the chairman of the Company, namely, 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.

Publications of results announcement

This results announcement is published on the websites of the Company (www.texhong.com) and the Stock Exchange (www.hkex.com.hk). An annual report for the year ended 31 December 2011 containing all the information required by the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

Acknowledgement

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders and business associates for their continuous support and the entire staff for their dedication and contribution to the Group during the year.

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

Hong Kong
19 March 2012

As at the date of this announcement, the Board comprises the following directors:

Executive directors:	Mr. Hong Tianzhu Mr. Zhu Yongxiang Mr. Gong Zhao Mr. Tang Daoping
Independent non-executive directors:	Mr. Ting Leung Huel, Stephen Ms. Zhu Lanfen Prof. Cheng Longdi