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 2012

FINANCIAL HIGHLIGHTS

- Revenue increased by 11.8% to RMB3,325 million
- Gross profit margin decreased by 5.4 percentage point to 13.4%
- Net profit margin decreased by 4.2 percentage point to 4.4%
- Profit attributable to equity holders decreased by 43.3% to RMB145 million
- Earnings per share for the half year decreased by 43.3% to RMB0.16

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Revenue	2	**3,325,184**	2,973,956
Cost of sales	3	**(2,879,246)**	(2,416,024)
Gross profit		**445,938**	557,932
Selling and distribution costs	3	**(89,592)**	(61,675)
General and administrative expenses	3	**(110,926)**	(100,722)
Other income		**2,624**	2,727
Other losses – net		**(10,795)**	(51,455)
Operating profit		**237,249**	346,807
Finance income	4	**6,367**	2,704
Finance costs	4	**(80,745)**	(44,795)
Share of profit of an associate		**1,888**	751
Profit before income tax		**164,759**	305,467
Income tax expense	5	**(19,852)**	(49,215)
Profit for the period		**144,907**	256,252
Other comprehensive income		**–**	–
Total comprehensive income for the period		**144,907**	256,252
Total comprehensive income for the period attributable to:			
– Owners of the Company		**145,083**	256,082
– Non-controlling interests		**(176)**	170
		144,907	256,252
Earnings per share attributable to owners of the Company (expressed in RMB per share)	6		
Basic earnings per share		**0.164**	0.289
Diluted earnings per share		**0.164**	0.289
Dividends	7	**–**	72,304

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 2012** *RMB'000*	Audited 31 December 2011 *RMB'000*
ASSETS			
Non-current assets			
Land use rights		**225,455**	185,711
Property, plant and equipment		**1,921,072**	1,991,777
Investment in an associate		**48,433**	46,545
Deferred income tax assets		**62,601**	49,638
Total non-current assets		**2,257,561**	2,273,671
Current assets			
Inventories		**1,559,004**	1,288,561
Trade and bills receivables	*8*	**774,125**	640,086
Prepayments, deposits and other receivables		**174,523**	232,719
Pledged bank deposits		**55,450**	31,907
Cash and cash equivalents		**533,316**	463,407
Total current assets		**3,096,418**	2,656,680
Total assets		**5,353,979**	4,930,351
EQUITY			
Equity attributable to owners of the Company			
Share capital		**94,064**	94,064
Other reserves		**611,250**	613,071
Retained earnings		**1,511,577**	1,364,673
		2,216,891	2,071,808
Non-controlling interests		**(81)**	95
Total equity		**2,216,810**	2,071,903

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**1,632,180**	1,712,275
Deferred income tax liabilities		**54,692**	52,401
Total non-current liabilities		**1,686,872**	1,764,676
Current liabilities			
Trade and bills payables	*9*	**971,909**	502,408
Accruals and other payables		**289,271**	417,103
Current income tax liabilities		**1,648**	(14,277)
Borrowings		**125,191**	143,519
Derivative financial instruments	*10*	**62,278**	45,019
Total current liabilities		**1,450,297**	1,093,772
Total liabilities		**3,137,169**	2,858,448
Total equity and liabilities		**5,353,979**	4,930,351
Net current assets		**1,646,121**	1,562,908
Total assets less current liabilities		**3,903,682**	3,836,579

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 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 13 August 2012.

These condensed consolidated interim financial statements have not been audited.

These condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with HKFRSs.

The Group meets its day-to-day working capital requirements through its bank facilities. The current economic conditions continue to create uncertainty particularly over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its condensed consolidated interim financial statements.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, 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.

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 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 2015 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.

- 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. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- 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 HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

- HKAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to HKAS 19's impact.

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 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 Committee of Executive Directors is the Group's chief operating decision-maker. 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 2012 is as follows:

	Unaudited Six months ended 30 June 2012						
	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	**2,423,096**	**1,159,381**	**2,641,315**	**169,098**	**473,214**	**91,694**	**6,957,798**
Inter-segment revenue	**(238,743)**	**(1,069,251)**	**(2,155,522)**	**(169,098)**	**–**	**–**	**(3,632,614)**
Revenue (from external customers)	**2,184,353**	**90,130**	**485,793**	**–**	**473,214**	**91,694**	**3,325,184**
Segment results	**138,716**	**78,112**	**4,634**	**10,683**	**5,308**	**7,303**	**244,756**
Unallocated expenses							**(7,507)**
Operating results							**237,249**
Finance income							**6,367**
Finance costs							**(80,745)**
Share of profit of an associate							**1,888**
Income tax expense							**(19,852)**
Profit for the period							**144,907**
Depreciation and amortisation	**(40,721)**	**(43,588)**	**(28)**	**(11)**	**(11,034)**	**(1,632)**	**(97,014)**

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 assets and liabilities as at 30 June 2012 are as follows:

	Unaudited As at 30 June 2012							
	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	**2,897,630**	**1,457,420**	**243,126**	**26,534**	**4,624,710**	**568,309**	**113,112**	**5,306,131**
Unallocated assets								**47,848**
Total assets of the Group								**5,353,979**
Total segment liabilities					**(1,675,454)**	**(91,235)**	**(17,160)**	**(1,783,849)**
Unallocated liabilities								**(1,353,320)**
Total liabilities of the Group								**(3,137,169)**
Capital expenditure	**21,964**	**44,589**	**–**	**2**	**66,555**	**4,242**	**165**	**70,962**

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

	Audited 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

3. EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Cost of inventories	**2,474,959**	1,932,316
Employment costs	**240,313**	207,615
Utilities	**167,020**	131,983
Depreciation and amortisation	**97,014**	82,058
(Reversal of)/provision for decline in the value of inventories	**(72,635)**	79,490
Transportation	**63,151**	37,619

4. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interest expense – bank borrowings wholly repayable within five years	**74,298**	76,518
Less: amount capitalised in property, plant and equipment	**–**	(353)
	74,298	76,165
Exchange losses/(gains) on financing activities	**6,447**	(31,370)
Finance costs – net	**80,745**	44,795
Finance income – interest income on bank deposits	**(6,367)**	(2,704)
Net finance costs	**74,378**	42,091

5. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current income tax		
– Mainland China and Vietnam enterprise income tax	**30,524**	58,644
Deferred income tax	**(10,672)**	(9,429)
	19,852	49,215

(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 (2011: Nil).

(ii) Mainland China enterprise income tax

Subsidiaries established in Mainland China are subject to enterprise income tax ("EIT") at rate of 25% during the period (2011: rates ranging from 24% 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% (2011: 25%).

As approved by the relevant Tax Bureau in Vietnam, the subsidiaries established in Vietnam in 2012 and 2011 are entitled to four years' exemption from income taxes followed by nine years of a 50% reduction in income tax, commencing from the first profitable year after offsetting the losses carried forward from the previous years, and are entitled to a preferential income tax rate of 10% for 15 years, commencing from the first year generating income from the operation.

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% reduction in income tax 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% reduction in income tax 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 (2011: Nil to 25%).

(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 the countries of jurisdiction.

The subsidiary established in Macao is subject to income tax at rate of 9% (2011: 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 (2011: Nil).

6. EARNING 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	
	2012	2011
Profit attributable to equity holders of the Company *(RMB'000)*	**145,083**	256,082
Weighted average number of ordinary shares in issue *(thousands)*	**884,681**	884,681
Basic earnings per share *(RMB per share)*	**0.164**	0.289

(b) Diluted

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

7. DIVIDENDS

No dividend that relates to the period up to 31 December 2011 was paid in 2012 (2011: RMB126,243,000).

In addition, no interim dividend (2011: HK$0.1 per ordinary share, amounting to RMB72,304,000) was proposed by the board of directors.

8. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Trade receivables	**160,527**	190,226
Less: provision for impairment	**(877)**	(1,743)
	159,650	188,483
Bills receivables	**614,475**	451,603
	774,125	640,086

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:

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 30 days	**438,495**	297,279
31 to 90 days	**215,475**	42,269
91 to 180 days	**117,719**	299,670
181 days to 1 year	**2,906**	2,305
Over 1 year	**407**	306
	775,002	641,829
Less: provision for impairment	**(877)**	(1,743)
Trade and bills receivables – net	**774,125**	640,086

9. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Trade payables	**177,232**	115,890
Bills payables	**794,677**	386,518
	971,909	502,408

As at 30 June 2012, included in the trade payables was an amount due to an associate of RMB1,537,000 (31 December 2011: RMB345,000).

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

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 90 days	**725,010**	99,188
91 to 180 days	**231,336**	394,022
181 days to 1 year	**12,941**	5,282
Over 1 year	**2,622**	3,916
	971,909	502,408

10. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2012 ***RMB'000***	Audited 31 December 2011 *RMB'000*
Liabilities:		
Interest rate swap contracts	**62,278**	45,019

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

The interest rate swap contracts as at 30 June 2012 comprised four contracts with notional principal amounts to totalling RMB1,729,860,000 (31 December 2011: RMB1,265,851,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present the results of the Group for the six months ended 30 June 2012 to our shareholders. During the period under review, the Group's turnover increased by 11.8% to RMB3,325 million when compared to the corresponding period last year. The increase was mainly attributable to the growth in sales volume. Profit attributable to equity holders decreased by 43.3% to RMB145 million when compared to the corresponding period last year. Earnings per share for the half year decreased by 43.3% to RMB0.164 from RMB0.289 for the corresponding period last year. The decrease in profit attributable to equity holders was mainly due to the fact that the Group was unable to sell its products in the first half of 2012 at such higher selling prices and better profit margin as that in the corresponding period last year due to much lower cotton market prices in the first half of 2012 when compared to the corresponding period last year.

Industry Review

Since 2012, given the weakening of the domestic and international market demand under the macroeconomic environment, China's textile industry tends to grow at a slower pace. There was a significant fall in the growth rate of the major economic indicators when compared to the corresponding period last year. As indicated by the information provided by China National Textile And Apparel Council, the accumulated industrial output value realized by the textile enterprises with certain economy of scale in China from January to May 2012 was RMB2,144.93 billion, representing an increase of 7.7% over the corresponding period last year. According to the statistics from the General Administration of Customs, the accumulated amount of export of textiles and garment products from January to June 2012 was US$113.5 billion, representing an increase of 1.6% over the corresponding period in 2011. Additional investments in fixed assets of RMB340.4 billion was made in the textile industry in China from January to June 2012, representing an increase of 15.2% over the corresponding period last year. However, the number of new projects and the number of completed projects decreased by 10.1% and 22.44% over the corresponding period last year respectively.

Business Review

For the six months ended 30 June 2012, the turnover of the Group was RMB3,325 million, representing an increase of 11.8% 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 RMB2,760 million and accounted for 83.0% of the Group's total turnover for the six months ended 30 June 2012. With the relatively stable cotton prices, together with the resumption of sales orders and product portfolio to normal levels, sales volume of yarns grew by 45.1% to about 109,120 tons when compared to the corresponding period last year. The Group has continuously been focusing on the core-spun cotton and denim yarn markets in China and exploring the differentiated and high value-added yarn products market. The turnover of grey fabrics amounted to RMB473 million and accounted for 14.2% of the Group's total turnover for the six months ended 30 June 2012. Sales volume of grey fabrics rose by 20.5% from the corresponding period last year to about 40 million meters. The operating data of our products is set out below:

	January to June 2012	**Gross profit margin**	January to June 2011	Gross profit margin	**Turnover change between 2012 and 2011**	**Margin change between 2012 and 2011**
	RMB'000		*RMB'000*			*Percentage points*
Stretchable core-spun yarns						
– Cotton	**1,243,257**	14.6%	968,743	21.5%	28.3%	-6.9
– Denim	**365,687**	21.4%	279,949	27.9%	30.6%	-6.5
– Synthetic fiber	**326,603**	10.7%	256,448	22.3%	27.4%	-11.6
Other yarns						
– Cotton	**164,677**	13.1%	203,844	0.5%	–19.2%	12.6
– Denim	**391,104**	11.8%	462,253	19.4%	–15.4%	-7.6
– Synthetic fiber	**268,948**	12.9%	311,005	27.9%	–13.5%	-15.0
Fabrics						
– Stretchable grey fabrics	**368,380**	9.1%	311,834	7.9%	18.1%	1.2
– Other grey fabrics	**104,834**	1.7%	132,767	3.1%	–21.0%	-1.4
– Garment fabrics	**91,694**	15.5%	47,113	16.5%	94.6%	-1.0
Total	**3,325,184**	13.4%	2,973,956	18.8%	11.8%	-5.4

	Sales Volume		Sales Volume change between	Selling price		Selling price change between
	January to June 2012	January to June 2011	**2012 and 2011**	**January to June 2012**	January to June 2011	**2012 and 2011**
Stretchable core-spun yarns (Ton/RMB per ton)						
– Cotton	**44,238**	24,810	78.3%	**28,104**	39,046	-28.0%
– Denim	**14,364**	8,522	68.6%	**25,459**	32,850	-22.5%
– Synthetic fiber	**13,713**	9,100	50.7%	**23,817**	28,181	-15.5%
Other yarns (Ton/RMB per ton)						
– Cotton	**6,847**	6,232	9.9%	**24,051**	32,709	-26.5%
– Denim	**17,892**	15,690	14.0%	**21,859**	29,462	-25.8%
– Synthetic fiber	**12,066**	10,855	11.2%	**22,290**	28,651	-22.2%
Fabrics (Million meters/ RMB per meter)						
– Stretchable grey fabrics	**30.7**	23.1	32.9%	**12.0**	13.5	-11.1%
– Other grey fabrics	**9.5**	10.3	–7.8%	**11.1**	12.9	-14.0%
– Garment fabrics	**4.7**	1.9	147.4%	**19.6**	24.8	-21.0%

The overall gross profit margin of the Group's products decreased from 18.8% for the corresponding period last year to 13.4%. Although the Group achieved a successful turnaround in 2012 from its loss position in the second half of 2011, and the Group's profitability in the first half of 2012 has been gradually improved, the Group's profit for the six months ended 30 June 2012 was significantly less than that for the corresponding period last year. This was due to the fact that the Group was unable to sell its products in the first half of 2012 at such higher selling prices and better profit margin as that in the first half of 2011 due to much lower cotton market prices in the first half of 2012 when compared to the corresponding period last year.

Although customers have still been very sensitive to yarn selling prices, as compared to second half of 2011, sales volume in the first half of 2012 continued to be stable at around 109,120 tons, which was a growth when compared to about 75,000 tons for the corresponding period last year.

The Group will continue to pursue its business strategy of optimizing the product mix, developing new products that cater for market trend and demand and fully leveraging the cost advantage of the production base in Vietnam, thereby further improving the Group's financial performance. Currently, the international market prices of cotton are lower than cotton prices in China. This will be beneficial to the Group's manufacturing operation in Vietnam. The Group has stepped up the procurement of overseas cotton, in order to provide assurance for the profit in the second half of 2012.

While developing differentiated products, we keep on exploring the production of different types of yarns including knitted yarns. We have continued to maintain close 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 2012 are as follows:

Zhejiang Limayunshan Textile Co., Ltd.
Yixing Lucky G And L Dyeing And Finishing Co., Ltd.
Jiangsu Baohong Textile Co., Ltd
Yixing Lucky G And L Denim Co., Ltd.
Shaoguan Shunchang Weaving Factory Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Toray International, Inc.
Foshan Seazon Textile & Garment Co., Ltd.
PUNTO FA,S.L.
Zhejiang Jiaermei Textile Co., Ltd.

FUTURE OUTLOOK

Given that the prices of cotton and other agricultural products are still subject to the impact of dramatic changes in global economy and financial market, and certain policies on cotton prices and imports have been put into place by the PRC government, domestic textile business environment in China is increasingly unstable. Fortunately, the Group has set up production bases in countries other than China earlier, this greatly strengthens its competitive edges and reduces risk exposure. The Group's project in northern Vietnam has successfully commenced construction in July 2012. In view of the Group's resumed profitability, the scale of the first stage of this project will be enlarged to 170,000 spindles. The related capital expenditure is currently intended to be financed by internal resources and some machinery may be financed by instalment loans. The project is expected to undergo test run at the end of the first quarter of 2013, and to be put into full operation in the second quarter of 2013.

In the foreseeable future, as the Group's major sales market is in China and its products are mainly related to cotton textiles, the performance of the Group will be mainly influenced by cotton prices, especially cotton prices in China. In addition, the price difference between China and the international cotton market will also have significant impact on the profitability of the Group's products produced in Vietnam. Nevertheless, the market demand for textiles in China remains huge. With a determined commitment to the manufacture and sale of high-quality yarn products, the Group is confident of the future sales growth.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2012, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB588.8 million (as at 31 December 2011: RMB495.3 million).

The Group's inventories and trade and bills receivables increased by RMB270.4 million and by RMB134.0 million to RMB1,559.0 million and RMB774.1 million, respectively (as at 31 December 2011: RMB1,288.6 million and RMB640.1 million). The inventory turnover days and trade receivable turnover days were 89 days and 38 days respectively, compared to 76 days and 27 days respectively as at 31 December 2011. During the period compared to that of last year, the increase in inventory turnover days were mainly due to advance purchases of Pakistan cotton. Increase in trade and bills receivable turnover days was mainly attributable to the increase in bills receivable as the Group reduced discounting of bills receivable due to stronger operating cash flow.

The Group's borrowings decreased to RMB1,757 million mainly due to the repurchase of its senior notes of notional amount of US$5 million and the repayment of matured bank borrowings (as at 31 December 2011: RMB1,856 million). The Group has repurchased and cancelled its senior notes of notional amount of US$12 million since its issuance in January 2011.

As at 30 June 2012, the Group's financial ratios were as follows:

	30 June 2012	31 December 2011
Current ratio	**2.14**	2.43
Debt to equity ratio[1]	**0.79**	0.90
Net debt to equity ratio[2]	**0.53**	0.66

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 operates 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 are denominated in RMB, while certain costs and liabilities are denominated in USD. Depreciation of RMB against USD will be unfavourable to the Group. 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 material foreign exchange hedging activities during the period under review.

Capital expenditure

For the six months ended 30 June 2012, the capital expenditure of the Group amounted to approximately RMB70.96 million (For the six months ended 30 June 2011: RMB275.7 million), including equipment upgrading in the plants located in Mainland China and the prepayment for land use right in northern Vietnam.

Disclosure pursuant to Rule 13.18 of the Listing Rules

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 aggregate 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 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 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. During the six months ended 30 June 2012, the Company repurchased and cancelled notional amount of US$5 million of the Notes.

Pledge of assets

As at 30 June 2012, the Group's land use rights and buildings, machinery and equipment with an aggregate net book value of approximately RMB360 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 2011: RMB438.1 million).

Human resources

As at 30 June 2012, the Group had a total workforce of 13,246, representing a decrease of 0.9% compared with that at the end of last year (As at 31 December 2011: 13,368), of whom 8,863 were based in the regional headquarters in Shanghai and our manufacturing plants in mainland China. The remaining 4,383 were located in regions outside mainland China including Vietnam, Hong Kong and Macao. 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, representing about 30% of the Group's net profit for the year, with a view to providing our shareholders with a reasonable return. Due to the limitations as stipulated in the Indenture of the Notes, the Board does not recommend interim dividend for the six months ended 30 June 2012. Once the requirement of the Indenture has been met again, the Board will consider recommending dividend accordingly depending on the then financial performance of the Group.

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

For the six months ended 30 June 2012, 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.

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 terms of reference 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 2012.

Remuneration committee

The remuneration committee of the Board comprises the chairman and executive Director, Mr. Hong Tianzhu, and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Professor Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The terms of reference of the remuneration committee comply with the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board of Directors.

Nomination committee

As announced by the Company on 30 March 2012, the nomination committee of the Board was established with effect from 1 April 2012. The nomination committee comprises the chairman and executive Director, Mr. Hong Tianzhu, and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Professor Cheng Longdi. Mr. Hong Tianzhu is the chairman of the nomination committee. The terms of reference of the nomination committee comply with the Code Provisions. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

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

Hong Kong, 13 August 2012

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.