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

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

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue increased by 26.5% to RMB4,566 million
- Gross profit margin decreased by 8.2 percentage points to 13.2%
- Net profit margin decreased by 9.7 percentage points to 2.7%
- Profit attributable to equity holders decreased by 72.0% to RMB125 million
- Earnings per share for the half year decreased by 72.1% to RMB0.141
- The Board declared an interim dividend of 5 HK cents per share

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2014	2013
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**4,566,044**	3,608,698
Cost of sales	*3*	**(3,962,570)**	(2,837,939)
Gross profit		**603,474**	770,759
Selling and distribution costs	*3*	**(157,328)**	(98,935)
General and administrative expenses	*3*	**(157,327)**	(141,832)
Other income		**2,593**	1,830
Other (losses)/gains — net		**(14,205)**	11,620
Operating profit		**277,207**	543,442
Finance income	*4*	**1,578**	4,054
Finance costs	*4*	**(145,331)**	(47,056)
Share of profit of an associate		**1,200**	1,831
Profit before income tax		**134,654**	502,271
Income tax expense	*5*	**(9,618)**	(55,697)
Profit for the period		**125,036**	446,574
Profit for the period attributable to:			
— Owners of the Company		**125,036**	446,572
— Non-controlling interests		**–**	2
		125,036	446,574
Earnings per share attributable to owners of the Company (expressed in RMB per share)	*6*		
Basic earnings per share		**0.141**	0.505
Diluted earnings per share		**0.141**	0.505
Dividends	*7*	**35,113**	133,900

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2014** *RMB'000*	Audited 31 December 2013 *RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**391,136**	395,299
Property, plant and equipment		**4,272,650**	3,804,005
Investment in an associate		**56,726**	55,526
Deferred income tax assets		**153,224**	134,758
Total non-current assets		**4,873,736**	4,389,588
Current assets			
Inventories	*8*	**2,585,937**	2,280,471
Trade and bills receivables	*9*	**1,063,196**	963,080
Prepayments, deposits and other receivables		**361,964**	352,092
Derivative financial instruments	*11*	**3,179**	13,333
Pledged bank deposits		**52,156**	26,644
Cash and cash equivalents		**1,053,166**	919,107
Total current assets		**5,119,598**	4,554,727
Total assets		**9,993,334**	8,944,315
EQUITY			
Equity attributable to owners of the Company			
Share capital		**94,064**	94,064
Other reserves		**667,873**	670,922
Retained profits		**2,546,832**	2,615,432
Total equity		**3,308,769**	3,380,418

	Note	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**2,872,998**	2,623,433
Deferred income tax liabilities		**76,094**	75,774
Finance lease obligations		**398,712**	178,705
Total non-current liabilities		**3,347,804**	2,877,912
Current liabilities			
Trade and bills payables	*10*	**2,532,570**	2,009,599
Accruals and other payables		**433,422**	395,402
Current income tax liabilities		**14,246**	17,306
Borrowings		**204,981**	166,089
Derivative financial instruments	*11*	**34,524**	42,603
Finance lease obligations		**117,018**	54,986
Total current liabilities		**3,336,761**	2,685,985
Total liabilities		**6,684,565**	5,563,897
Total equity and liabilities		**9,993,334**	8,944,315
Net current assets		**1,782,837**	1,868,742
Total assets less current liabilities		**6,656,573**	6,258,330

Notes:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO 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 11 August 2014.

This condensed consolidated interim financial information has not been audited.

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, 'Interim financial reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

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

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2014.

- Amendment to HKAS 32 'Financial instruments: Presentation — on assets and liability offsetting' is effective for annual periods beginning on or after 1 January 2014. It clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. It is not expected to have any significant impact on the Group's financial statements.

- Amendments to HKFRS 10, 12 and HKAS 27 'Consolidation for investment entities' are effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made HKFRS 12 to introduce disclosures that an investment entity needs to make. It is not expected to have any significant impact on the Group's financial statements.

- Amendment to HKAS 36, 'Impairment of assets' on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014. It addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. It is not expected to have any significant impact on the Group's financial statements.

- Amendment to HKAS 39 'Financial Instruments: Recognition and Measurement' is effective for annual periods beginning on or after 1 January 2014. It provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. It is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC) 21 'Levies' is effective for annual periods beginning on or after 1 January 2014. It is an interpretation of HKAS 37 'Provisions, contingent liabilities and contingent assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. It is not expected to have any significant impact on the Group's financial statements.

(b) The following new standards and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted

- Amendment to HKAS19 regarding defined benefit plans, effective for annual periods beginning on or after 1 July 2014.

- HKFRS 14 'Regulatory Deferral Accounts', effective for annual periods beginning on or after 1 January 2016.

- Amendment to HKFRS 11 on accounting for acquisitions of interests in joint operation, effective for annual periods beginning on or after 1 January 2016.

- Amendments to HKAS 16 and HKAS 38 on clarification of acceptable methods of depreciation and amortisation, effective for annual periods beginning on or after 1 January 2016.

- HKFRS15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2017.

- HKFRS 9 'Financial Instruments'.

There are no other HKRFs 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, Hong Kong, Uruguay and Turkey.

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 2014 is as follows:

	Unaudited Six months ended 30 June 2014								
	Yarn						Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Hong Kong *RMB'000*	Uruguay *RMB'000*	Turkey *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total revenue	**3,359,603**	**1,921,097**	**4,109,302**	**51,245**	**–**	**–**	**325,137**	**66,759**	**9,833,143**
Inter-segment revenue	**(268,554)**	**(1,862,964)**	**(3,087,261)**	**(48,320)**	**–**	**–**	**–**	**–**	**(5,267,099)**
Revenue (from external customers)	**3,091,049**	**58,133**	**1,022,041**	**2,925**	**–**	**–**	**325,137**	**66,759**	**4,566,044**
Segment results	**(14,329)**	**61,046**	**227,261**	**4**	**(459)**	**(780)**	**2,569**	**2,708**	**278,020**
Unallocated expenses									**(813)**
Operating results									**277,207**
Finance income									**1,578**
Finance costs									**(145,331)**
Share of profit of an associate									**1,200**
Income tax expense									**(9,618)**
Profit for the period									**125,036**
Depreciation and amortisation	**(84,933)**	**(89,297)**	**(34)**	**(61)**	**–**	**(32)**	**(9,332)**	**(833)**	**(184,522)**

The segment information for the six months ended 30 June 2013 is as follows:

	Unaudited Six months ended 30 June 2013								
	Yarn						Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Hong Kong *RMB'000*	Uruguay *RMB'000*	Turkey *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total revenue	2,739,999	1,136,226	3,172,758	145,511	–	–	421,030	73,185	7,688,709
Inter-segment revenue	(303,920)	(1,049,579)	(2,587,828)	(138,684)	–	–	–	–	(4,080,011)
Revenue (from external customers)	2,436,079	86,647	584,930	6,827	–	–	421,030	73,185	3,608,698
Segment results	213,905	60,927	299,228	6,440	(983)	–	2,689	1,226	583,432
Unallocated expenses									(39,990)
Operating results									543,442
Finance income									4,054
Finance costs									(47,056)
Share of profit of an associate									1,831
Income tax expense									(55,697)
Profit for the period									446,574
Depreciation and amortisation	(41,875)	(50,926)	(14)	(28)	–	–	(9,158)	(858)	(102,859)

The segment assets and liabilities as at 30 June 2014 are as follows:

	Unaudited As at 30 June 2014									
	Yarn							**Grey fabrics**	**Garment fabrics**	
	Mainland China *RMB'000*	**Vietnam** *RMB'000*	**Macao** *RMB'000*	**Hong Kong** *RMB'000*	**Uruguay** *RMB'000*	**Turkey** *RMB'000*	**Sub-total** *RMB'000*	**Mainland China** *RMB'000*	**Mainland China** *RMB'000*	**Total** *RMB'000*
Total segment assets	**5,120,956**	**3,714,648**	**358,124**	**3,977**	**9,939**	**36,646**	**9,244,290**	**559,114**	**131,692**	**9,935,096**
Unallocated assets										**58,238**
Total assets of the Group										**9,993,334**
Total segment liabilities							**(4,078,985)**	**(114,028)**	**(8,346)**	**(4,201,359)**
Unallocated liabilities										**(2,483,206)**
Total liabilities of the Group										**(6,684,565)**
Capital expenditure	**95,699**	**552,165**	**4**	**25**	**–**	**899**	**648,792**	**2,329**	**–**	**651,121**

The segment assets and liabilities as at 31 December 2013 are as follows:

	Audited As at 31 December 2013									
	Yarn							Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	Hong Kong *RMB'000*	Uruguay *RMB'000*	Turkey *RMB'000*	Sub-total *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total segment assets	4,900,651	2,891,692	346,171	3,540	10,188	25,505	8,177,747	567,962	124,292	8,870,001
Unallocated assets										74,314
Total assets of the Group										8,944,315
Total segment liabilities							(3,068,775)	(67,652)	(10,602)	(3,147,029)
Unallocated liabilities										(2,416,868)
Total liabilities of the Group										(5,563,897)
Capital expenditure	662,251	778,622	14	12	–	24,111	1,465,010	4,205	10	1,469,225

3. EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Cost of inventories	**3,155,051**	2,289,788
Employment costs	**461,131**	305,787
Utilities	**283,952**	180,351
Depreciation and amortisation	**184,522**	102,859
Transportation	**103,076**	62,693
Reversal of provision for decline in the value of inventories	**–**	(5,526)

4. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Interest expense		
— borrowings wholly repayable within five years	**116,319**	84,928
— borrowings wholly repayable after five years	**261**	–
— finance lease obligations	**5,237**	1,637
	121,817	86,565
Exchange losses/(gains) on financing activities	**27,547**	(39,509)
Less: amount capitalized in property, plant and equipment	**(4,033)**	–
Finance costs — net	**145,331**	47,056
Finance income — interest income on bank deposits	**(1,578)**	(4,054)
Net finance costs	**143,753**	43,002

5. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	*RMB'000*
Current income tax		
— Mainland China and Vietnam enterprise income tax	**27,764**	44,939
Deferred income tax	**(18,146)**	10,758
	9,618	55,697

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to income tax at rate of 16.5% (2013:16.5%).

(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 (2013: 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., Shanghai Hongrun Textile Co., Ltd., Shandong Texhong Textile Co.,Ltd. and Texhong Textile (China) 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% (2013: 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% tax reduction, 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 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%.

As approved by the relevant Tax Bureau in Vietnam, the other subsidiary in Vietnam should separately calculate income tax on its supplementary investments. The initial investment of the subsidiary is entitled to a tax rate of 15%. The supplementary investment of the subsidiary is entitled to a tax rate of 25%.

The applicable tax rates for the subsidiaries in Vietnam range from nil to 25% during the period (2013: 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 the rate of 9% (2013: 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 (2013: nil).

The subsidiary established in Uruguay is subject to income tax at the rate of 25% (2013: 25%). No provision for Uruguay profits tax has been made as the Group had no assessable profit arising in or derived from Uruguay during the period (2013: nil).

The subsidiary established in Turkey is subject to income tax at the rate of 20% (2013: 20%). No provision for Turkey profits tax has been made as the Group had no assessable profit arising in or derived from Turkey during the period (2013: nil).

6. EARNINGS PER SHARE

(a) Basic

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

	Unaudited Six months ended 30 June	
	2014	2013
Profit attributable to equity holders of the Company *(RMB'000)*	**125,036**	446,572
Weighted average number of ordinary shares in issue *(thousands)*	**884,681**	884,681
Basic earnings per share *(RMB per share)*	**0.141**	0.505

(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

A dividend of RMB196,608,000 that related to the year ended 31 December 2013 was paid in April 2014 (2013: RMB192,142,000).

In addition, an interim dividend of HKD0.05 per share (2013: HKD0.19 per share) was proposed by the board of directors on 11 August 2014. It will be payable on or about 10 September 2014 to shareholders whose names are on the register on 29 August 2014. This interim dividend, amounting to RMB35,113,000 (2013: RMB133,900,000), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the financial statements of the Company for the year ending 31 December 2014.

8. INVENTORIES

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Raw materials	**1,482,467**	1,298,555
Work-in-progress	**97,207**	69,534
Finished goods	**1,006,263**	912,382
	2,585,937	2,280,471

9. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Trade receivables	**255,145**	255,454
Less: provision for impairment	**(1,569)**	(1,569)
	253,576	253,885
Bills receivables	**809,620**	709,195
	1,063,196	963,080

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 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Within 30 days	**709,016**	636,895
31 to 90 days	**231,436**	256,190
91 to 180 days	**105,814**	67,471
181 days to 1 year	**17,137**	3,113
Over 1 year	**1,362**	980
	1,064,765	964,649
Less: provision for impairment	**(1,569)**	(1,569)
Trade and bills receivables — net	**1,063,196**	963,080

10. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Trade payables	**567,771**	424,156
Bills payables	**1,964,799**	1,585,443
	2,532,570	2,009,599

As at 30 June 2014, included in the trade payables was an amount due to a related party of RMB 292,000 (31 December 2013: RMB288,000).

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

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Within 90 days	**1,738,573**	1,801,815
91 to 180 days	**499,810**	201,045
181 days to 1 year	**291,312**	4,209
Over 1 year	**2,875**	2,530
	2,532,570	2,009,599

11. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2014 *RMB'000*	Audited 31 December 2013 *RMB'000*
Assets:		
Forward foreign exchange contracts	**3,179**	13,333
Liabilities:		
Interest rate swap contracts	**34,524**	42,603

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

The forward foreign exchange contracts as at 30 June 2014 comprised two contracts with notional principal amounts totalling RMB 92,292,000 (2013: three contracts with notional principal amounts totalling RMB304,845,000).

The interest rate swap contracts as at 30 June 2014 comprised four contracts with notional principal amounts totalling RMB1,645,874,000 (2013: four contracts with notional principal amounts totalling RMB1,640,066,000).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

We are pleased to present the results of the Group for the six months ended 30 June 2014 to our shareholders. During the period under review, the Group's turnover increased by 26.5% to RMB4,566 million when compared to the corresponding period last year. The increase was mainly attributable to the growth in yarn's sales volume. Profit attributable to equity holders for the six months ended 30 June 2014 decreased by 72.0% to RMB125 million when compared to the corresponding period last year. Earnings per share also decreased to RMB0.141 from RMB0.505 for the corresponding period last year. The decline in the profit attributable to equity holders was mainly due to the weak yarn selling prices of the Group in the PRC market and the depreciation of RMB in the first half of the year.

INDUSTRY REVIEW

In the first half of 2014, the Chinese cotton textile industry saw an overall downward trend in market price and decelerating overall production, with the import and export trade performance of the cotton textiles sector clearly demonstrating a period of sluggish growth right underway. 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 economies of scale in China from January to June 2014 was RMB3,103.85 billion, representing an increase of 8.51% over the figure of 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 China from January to June 2014 was US$132.48 billion, representing an increase of 4.1% over the figure of the corresponding period last year. Additional investments in fixed assets of RMB454.4 billion were made by the textile industry in China from January to June 2014, representing an increase of 16.06% over those of the corresponding period last year. However, the number of new projects and the number of completed projects only increased by 0.08% and 0.51% over those of the corresponding period last year respectively.

BUSINESS REVIEW

For the period under review, the turnover of the Group was RMB4,566 million, representing an increase of 26.5% when compared to the corresponding period last year. Turnover of our Group comprises sales of yarns, grey fabrics and garment fabrics. Yarns continued to be the major products of the Group, which contributed to a turnover of RMB4,174 million during the six months ended 30 June 2014, accounting for 91.4% of the Group's total turnover. The increase was mainly driven by sales volume growth. Additional production capacities built into the Group's production plants in Mainland China and Vietnam during the second half of 2013 were commissioned to full production with high efficiency in the first half of 2014. New capacity of approximately 258,000 spindles for the second phase of the Northern Vietnam production plant has been installed and commenced trial operation progressively during the second quarter of 2014. Driven by production expansion, the Group's yarn sales volume increased by 53.8% to a record high of about 183,000 tonnes for the six months ended 30 June 2014. The Group has been constantly focusing on stretchable core-spun yarn and denim yarn markets in China and exploring markets for differentiated and high value-added yarn products. The operating data of our products is set out below:

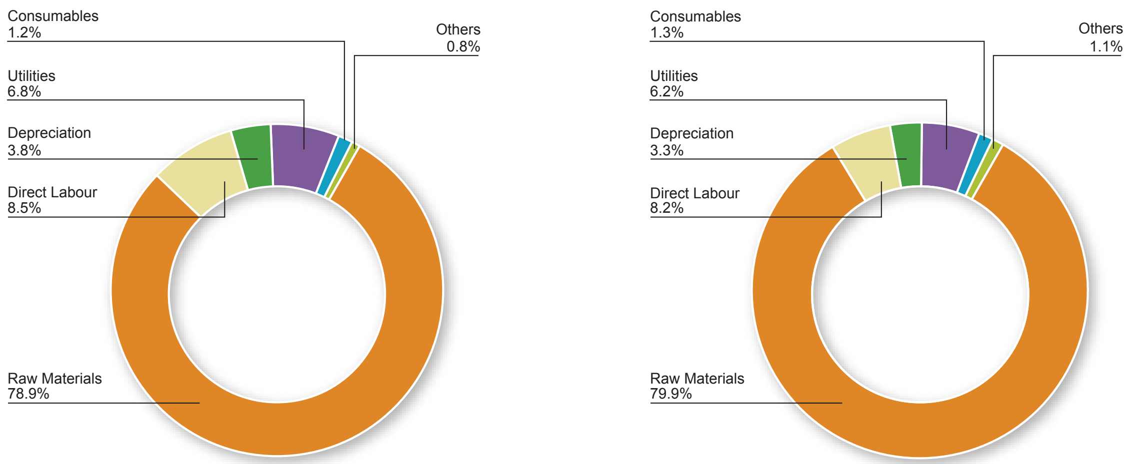
	January to June 2014	**Gross profit margin**	January to June 2013	Gross profit margin	**Turnover change between 2014 and 2013**	**Margin change between 2014 and 2013**
	RMB'000		*RMB'000*			***Percentage points***
Stretchable core-spun yarns						
— Cotton	**1,435,243**	**14.6%**	1,354,926	25.7%	**5.9%**	**–11.1**
— Denim	**605,119**	**18.1%**	597,353	26.9%	**1.3%**	**–8.8**
— Synthetic Fiber	**329,413**	**15.8%**	338,083	17.0%	**–2.6%**	**–1.2**
Other yarns						
— Cotton	**751,258**	**8.1%**	242,800	14.5%	**209.4%**	**–6.4**
— Denim	**587,006**	**13.1%**	292,195	22.8%	**100.9%**	**–9.7**
— Synthetic Fiber	**466,109**	**13.4%**	289,126	20.4%	**61.2%**	**–7.0**
Fabrics						
— Stretchable grey fabrics	**244,914**	**7.7%**	352,120	8.0%	**–30.4%**	**–0.3**
— Other grey fabrics	**80,223**	**1.7%**	68,910	5.3%	**16.4%**	**–3.6**
— Garment fabrics	**66,759**	**17.6%**	73,185	15.7%	**–8.8%**	**1.9**
Total	**4,566,044**	**13.2%**	3,608,698	21.4%	**26.5%**	**–8.2**

	Sales Volume		**Sales Volume change**	**Selling price**		**Selling price change**
	January to June 2014	January to June 2013	**between 2014 and 2013**	**January to June 2014**	January to June 2013	**between 2014 and 2013**
Stretchable core-spun yarns (Ton/RMB per ton)						
— Cotton	**58,082**	47,932	**21.2%**	**24,711**	28,268	**–12.6%**
— Denim	**24,871**	23,451	**6.1%**	**24,330**	25,472	**–4.5%**
— Synthetic Fiber	**14,536**	13,855	**4.9%**	**22,662**	24,402	**–7.1%**
Other yarns (Ton/RMB per ton)						
— Cotton	**34,371**	9,947	**245.5%**	**21,857**	24,409	**–10.5%**
— Denim	**28,809**	12,757	**125.8%**	**20,376**	22,905	**–11.0%**
— Synthetic Fiber	**22,241**	11,004	**102.1%**	**20,957**	26,275	**–20.2%**
Fabrics (Million meters/RMB per meter)						
— Stretchable grey fabrics	**22.7**	33.1	**–31.4%**	**10.8**	10.6	**1.9%**
— Other grey fabrics	**10.6**	7.3	**45.2%**	**7.6**	9.4	**–19.1%**
— Garment fabrics	**3.4**	3.8	**–10.5%**	**19.6**	19.3	**1.6%**

The overall gross profit margin of the Group's products decreased from 21.4% for the corresponding period last year to 13.2% for the six months ended 30 June 2014. Decrease in gross profit margin was mainly attributable to the selling price decrease in the yarn market in China. The yarn selling price in the Chinese market had been sluggish this year due to the uncertainties in the policy reform in cotton purchase or subsidy by the Chinese government. In particular, following the Chinese government cutting the auction price of the national cotton reserve in April this year, the yarn market prices in China had further declined.

Cost of sales increased by 39.6% to RMB3,963 million when compared to the corresponding period last year. Raw material cost accounted for about 78.9% of the total cost of sales for the six months ended 30 June 2014. Cotton is our major raw material.

The breakdown of our cost of sales is shown below:



January to June 2014

January to June 2013

The Group will continue to implement our established corporate strategies, optimize product mix and develop new products that meet the market trends and needs. We will further improve our financial performance by taking full advantage of the existing international presence of our production operation. On one hand, with the gap between Chinese and overseas cotton prices narrowing down, the Group will adjust its product mix in production plants in Mainland China and Vietnam where necessary. On the other hand, with strong market demand for synthetic fibre yarns, the Group will gradually increase the proportion of synthetic fibre yarns sales and effectively reduce the impact of fluctuation in cotton price on the Group's financial performance.

The Group has also further strengthened the strategic cooperation with INVISTA North America S.à.r.l ("Invista") and Lenzing Fibers (Shanghai) Co., Ltd. ("Lenzing"). At the same time, the Group has continued to produce different high-end products using the Tencel® fibre, Modal® fibre, Cordura® fibre and viscose fibre supplied by Lenzing. The Group has further reinforced cooperative relationship with Toray of Japan. Our research and development centre in Changzhou has been developing products and improving product quality in reaction to market demand, in order to maintain a leading position in the industry and to meet the demand of quality customers for different high-end products.

The Chinese textile market has been the major market for the Group. The ten largest customers of the Group for the six months ended 30 June 2014, which accounted for 19.8% of the total turnover of the Group, are as follows:

Zhejiang Jiaermei Textile Co., Ltd.
Toray International, Inc.
Ningbo Daqian Textile Co., Ltd.
Yixing Lucky G And L Denim Co., Ltd.
Zhejiang Limayunshan Textile Co., Ltd.
Shaoguan Shunchang Weaving Factory Co., Ltd.
Conba Group Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Zengcheng Xinchangjing Textile Co., Ltd.
Zhejiang Xiangjia Textile Co., Ltd.

PROSPECT

Following the cancellation of the Chinese government's cotton purchase policy which had been implemented for the past three years, the cotton price in the Chinese market is expected to become more market-oriented. We expect the price trend of domestic cotton will gradually become clearer upon the introduction of the detailed regulations of direct subsidy policy for domestic cotton by the Chinese government, and the prices of yarn to be stabilized after the new crop cotton of this season is available in the market.

In view of such conditions, the Group will, on one hand, fully utilize its production capacities to consume a significant portion of its cotton reserve in order to increase its production volume and expand its market share. The Group will, on the other hand, focus on increasing its profitability by improving existing profile of products and developing new products that meet market demand.

As for the purchases of raw materials, the Group will closely monitor the fluctuation in prices of raw materials and actively adjust its sourcing strategy in order to minimize the negative impacts of market uncertainties on our gross profit margin.

With regard to the Group's expansion plans for 2014, the second phase of our northern Vietnam project with approximately 258,000 spindles commenced production in July 2014. The annual yarn production volume in 2014 is expected to reach a record high of 440,000 tonnes. Further, the construction of the Turkey project with approximately 60,000 spindles will begin this year and the operation is expected to commence in 2015. The Group will then own the equivalent of 2,220,000 spindles in aggregate, and the estimated annual yarn production volume will reach 500,000 tonnes based on the calculation of optimal product mix.

As for the operation of grey fabrics and garment fabrics, the Group plans to further strengthen the competitiveness of its products in the market by integrating existing resources and developing new products, as well as exploring the feasibility of expanding into the downstream business.

On 16 July 2013, the Group was listed as one of the "Top 500 Companies in China 2013" by Fortune, an internationally renowned magazine, which proved that the Group's continuing expansion and its mode of business successfully gained broad recognition. On 11 December 2013, the Group was awarded the "2013 CNTAC Innovation Award on Textiles Development" at the "2013 China Textile Innovation Conference" hosted by China National Textile and Apparel Council ("CNTAC") for its outstanding performance in respect of its strategies of product differentiation, results of research and development in a market-oriented new fibre yarn, leading edges in textile technology and its commitment and contribution to social responsibility. The Group will dedicate its unremitting efforts to striving for even better operating results in order to bring long term and sustainable return for the shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2014, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,105.3 million (as at 31 December 2013: RMB945.8 million).

As at 30 June 2014, the Group's inventories increased by RMB305.4 million to RMB2,585.9 million (as at 31 December 2013: RMB2,280.5 million), and trade and bills receivables increased by RMB100.1 million to RMB1,063.2 million (as at 31 December 2013: RMB963.1million). The inventory turnover days and trade and bills receivable turnover days were 111 days and 40 days respectively, as compared to 100 days and 39 days respectively as at 31 December 2013. Increase in inventory turnover days was mainly due to the production facilities expansion and addition in raw materials which were prepared for the production of the second phase of our Northern Vietnam project. However, the tonnage of our yarn inventory kept at a similar level as that of the end of last year resulting in a comparative improvement in its turnover days given the current sales volume. Trade and bills receivable turnover days were similar to the level in 2013. Trade and bills payable increased to RMB2,532.6 million (as at 31 December 2013: RMB2,009.6 million). The increase was mainly due to financing of the increase in raw material purchases.

The Group's borrowings increased by RMB288.5 million to RMB3,078.0 million, mainly due to the new long-term bank borrowings in Vietnam and Mainland China, which were used in payments for related capital expenditure (as at 31 December 2013: RMB2,789.5 million).

As at 30 June 2014, the Group's financial ratios were as follows:

	30 June 2014	31 December 2013
Current ratio	**1.53**	1.70
Debt to equity ratio[1]	**0.93**	0.83
Net debt to equity ratio[2]	**0.60**	0.55

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, significant amount 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.

Capital expenditure

For the six months ended 30 June 2014, the capital expenditure of the Group amounted to approximately RMB651 million (for the six months ended 30 June 2013: RMB1,034 million), which was mainly related to the investments in newly added production capacity in Mainland China and Vietnam.

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 and 12 April 2013, the Company and certain of its subsidiaries entered into (i) a purchase agreement with Deutsche Bank AG, Singapore Branch, in connection with the issue of US$200 million 7.625% senior notes ("2011 Notes") due 2016; and (ii) a purchase agreement with Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Standard Chartered Bank in connection with the issue of US$200 million 6.500% senior notes ("2013 Notes", together with the 2011 Notes, the "Notes") due 2019. The respective indenture (collectively, the "Indentures") 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 (but not including) the offer to purchase payment date.

A change of control under the Indentures 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 Indentures) 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 Indentures) 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 for our expansion of the Phase III project in Vietnam. The Facility shall be fully repayable in July 2018 and is secured by a mortgage of the Borrower's equipment and machinery. The 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 Facility Agreement, and as a result, the 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 announced by the Company on 18 March 2014, by a master lease agreement dated 18 March 2014 ("Master Lease Agreement") entered into between Australia And New Zealand Banking Group Limited ("Lessor") as lessor, the Company as lessee and certain subsidiaries of the Company as guarantors, the Lessor shall from time to time lease and the Company shall take on lease various textile equipment ("Equipment") with not more than five individual leases entered into under the Master Lease Agreement. The leases shall be for a maximum term of 84 months commencing from the date of the Master Lease Agreement for Equipment at the principal lease amount not exceeding US$50 million. In addition and as one of the conditions precedent for the Lessor to purchase the Equipment and lease the Equipment to the Company, the Company shall also pay the difference between the purchase price of the Equipment and the principal lease amount as advance rental payments, which is expected to amount to approximately US$23.2 million, together with interest on the lease payment and other fees payable to the Lessor.

The Master Lease Agreement contains an undertaking that the Company shall ensure and procure that Mr. Hong Tianzhu, shall remain the chairman of the Company. A breach of such requirement will constitute an event of default under the Master Lease Agreement, and as a result, the Lessor shall have the right to, among others, cancel and terminate the Master Lease Agreement and any lease thereunder, demand that the Equipment be returned to the Lessor and declare that all amounts accrued or outstanding under the Master Lease Agreement to be immediately due and payable. The occurrence of such circumstance may also 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 Indentures, the Facility Agreement and the Master Lease Agreement. As of 30 June 2014, the Company repurchased and cancelled notional amount of US$12 million of the 2011 Notes.

Pledge of assets

As at 30 June 2014, the Group's land use rights and buildings, machinery and equipment with an aggregate net book value of approximately RMB291 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 2013: RMB307 million).

Human resources

As at 30 June 2014, the Group had a total workforce of 22,380 employees, representing an increase of 11.0% mainly due to expansion in production facilities when compared with that at the end of last year (as at 31 December 2013: 20,171 employees), of whom 12,769 employees were based in the regional headquarters in Shanghai and our manufacturing plants in Mainland China. The remaining 9,611 employees stationed 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 reasonable returns. The Board has resolved to declare an interim dividend of 5 HK cents per share for the six months ended 30 June 2014 to shareholders whose names appear on the register of shareholders of the Company in Hong Kong on 29 August 2014.

Closure of register of members

The register of members of the Company will be closed from 28 August 2014 to 29 August 2014, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 10 September 2014), shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at 31st Floor, 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. on 27 August 2014.

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

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries had 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 three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the 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 (the "Model Code") set out in Appendix 10 to the Listing Rules. 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. Tao Xiaoming and Professor 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 2014.

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. Tao Xiaoming 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.

NOMINATION COMMITTEE

The nomination 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. Tao Xiaoming 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, 11 August 2014

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

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