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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue increased by 29.1% to RMB13.65 billion.
- Gross profit margin increased by 1.4 percentage point to 19.4%.
- Net profit margin increased by 3.2 percentage point to 8.8%.
- Net profit increased by 103.9% to RMB1,201.1 million.
- Profit attributable to shareholders increased by 101.0% to RMB1,187.5 million.
- Earnings per share increased to RMB1.33.

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 2016, together with the comparative figures for 2015.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Note	RMB'000	RMB'000
Revenue	2	13,647,737	10,574,854
Cost of sales	4	<u>(11,002,594)</u>	<u>(8,669,022)</u>
Gross profit		2,645,143	1,905,832
Selling and distribution costs	4	(496,712)	(368,989)
General and administrative expenses	4	(546,655)	(380,865)
Other income	3	126,098	10,196
Other gains/(losses) — net	3	<u>161,673</u>	<u>(15,748)</u>
Operating profit		<u>1,889,547</u>	<u>1,150,426</u>
Finance income	5	9,752	12,775
Finance costs	5	<u>(413,167)</u>	<u>(431,515)</u>
Finance costs — net	5	<u>(403,415)</u>	<u>(418,740)</u>
Share of profits less losses of investments accounted for using the equity method		<u>10,676</u>	<u>4,128</u>
Profit before income tax		1,496,808	735,814
Income tax expense	6	<u>(295,735)</u>	<u>(146,846)</u>
Profit for the year		<u>1,201,073</u>	<u>588,968</u>
Attributable to:			
Owners of the Company		1,187,531	590,826
Non-controlling interests		<u>13,542</u>	<u>(1,858)</u>
		<u>1,201,073</u>	<u>588,968</u>
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	7	<u>RMB1.33</u>	<u>RMB0.67</u>
— Diluted earnings per share	7	<u>RMB1.33</u>	<u>RMB0.67</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit for the year	<u>1,201,073</u>	<u>588,968</u>
Other comprehensive income/(losses)		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Revaluation of buildings		
— gross	45,883	—
— deferred income tax	(16,354)	—
<i>Items that may be reclassified subsequently to profit or loss</i>		
Share of other comprehensive losses of associates accounted for under equity method		
— share of currency translation reserve	(8,556)	—
Currency translation differences	<u>1,134</u>	<u>(1,024)</u>
Total comprehensive income for the year	<u>1,223,180</u>	<u>587,944</u>
Attributable to:		
Owners of the Company	1,209,471	589,802
Non-controlling interests	<u>13,709</u>	<u>(1,858)</u>
	<u>1,223,180</u>	<u>587,944</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	RMB'000	RMB'000
ASSETS			
Non-current assets			
Freehold land and land use rights		695,184	551,618
Property, plant and equipment		6,231,119	4,997,844
Investments accounted for using the equity method		99,349	63,674
Deferred income tax assets		117,004	160,731
		<u>7,142,656</u>	<u>5,773,867</u>
Current assets			
Inventories	9	2,931,297	1,893,107
Trade and bills receivables	10	1,589,990	1,031,779
Prepayments, deposits and other receivables		1,308,115	453,572
Derivative financial instruments	12	317,882	61,087
Pledged bank deposits		181,201	247,663
Cash and cash equivalents		1,813,208	1,940,022
		<u>8,141,693</u>	<u>5,627,230</u>
Total assets		<u><u>15,284,349</u></u>	<u><u>11,401,097</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		96,709	94,064
Share premium		433,777	189,218
Other reserves		566,590	509,922
Retained earnings		4,051,645	3,117,951
		<u>5,148,721</u>	<u>3,911,155</u>
Non-controlling interests		<u>42,723</u>	<u>27,414</u>
Total equity		<u><u>5,191,444</u></u>	<u><u>3,938,569</u></u>

		As at 31 December	
		2016	2015
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		2,559,625	2,505,306
Deferred income tax liabilities		113,377	96,341
Finance lease obligations		–	235,546
		<u>2,673,002</u>	<u>2,837,193</u>
Current liabilities			
Trade and bills payables	<i>11</i>	3,044,295	2,294,638
Accruals and other payables		721,658	618,767
Current income tax liabilities		72,006	27,988
Borrowings		3,549,669	1,547,754
Derivative financial instruments	<i>12</i>	32,275	12,688
Finance lease obligations		–	123,500
		<u>7,419,903</u>	<u>4,625,335</u>
Total liabilities		<u>10,092,905</u>	<u>7,462,528</u>
Total equity and liabilities		<u>15,284,349</u>	<u>11,401,097</u>

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 sales of yarn, grey fabrics and garment fabrics as well as garments.

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.

The annual results set out in this announcement do not constitute the Group’s consolidated financial statements for the year ended 31 December 2016 but are extracted from those financial statements.

The consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated. The consolidated financial statements have been approved and authorised for issue by the Board of Directors of the Company on 3 March 2017.

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

The consolidated financial statements of the Company have been prepared in accordance with all applicable 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, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

Changes in accounting policies and disclosures

(a) New standard and amendments of HKFRS adopted by the Group in 2016

The following new standard and amendments to existing standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016.

HKFRS 14 ‘Regulatory Deferral Accounts’ describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with HKFRS14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that entity can charge to customers for rate-regulated goods or services. It permits eligible first-time adopters of HKFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes. It requires separate presentation of regulatory deferral account balances in the balance sheet and of movements in those balances in the statement of comprehensive income. Disclosures are required to identify the nature of, and risk associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

Amendment to HKFRS 11 ‘Accounting for Acquisitions of Interests in Joint Operations’ requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a ‘Business’ (as defined in HKFRS 3, Business Combinations). Specifically, The investor needs to:

- measure identifiable assets and liabilities at fair value;
- expense acquisition-related costs;
- recognise deferred tax; and
- recognise the residual as goodwill.

All other principles of business combination accounting apply unless they conflict with HKFRS 11. The amendment is applicable to both the acquisition of the initial interest and a further interest in a joint operation. The previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation with joint control maintained.

Amendments to HKAS 16 and HKAS 38 ‘Clarification of Acceptable Methods of Depreciation and Amortisation’ clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances:

- where the intangible asset is expressed as a measure of revenue; or
- where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Amendments to HKAS 16 and HKAS 41 ‘Agriculture: Bearer Plants’ change the reporting for bearer plants, such as grape vines, rubber trees and oil palms. Bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. The amendments include them in the scope of HKAS 16 rather than HKAS 41. The produce on bearer plants will remain in the scope of HKAS 41.

Amendment to HKAS 27 ‘Equity Method in Separate Financial Statements’ allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Annual improvements 2014 include changes from the 2012–2014 cycle of the annual improvements project, that affect 4 standards:

- HKFRS 5 ‘Non-current Assets Held for Sale and Discontinued Operations’ clarifies that when an asset (or disposal group) is reclassified from ‘Held for Sale’ to ‘Held for Distribution’, or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as ‘Held for Sale’ or ‘Held for Distribution’ simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as ‘Held for Sale’.

- HKFRS 7 ‘Financial Instruments: Disclosures’ contains two amendments:

- (i) service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, HKFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement. There is a consequential amendment to HKFRS 1 to give the same relief to first time adopters.

- (ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to HKFRS 7 ‘Disclosure — Offsetting Financial Assets and Financial Liabilities’ is not specifically required for all interim periods, unless required by HKAS 34.

- HKAS 19 ‘Employee Benefits’ clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.
- HKAS 34 ‘Interim Financial Reporting’ clarifies what is meant by the reference in the standard to ‘Information Disclosed Elsewhere in the Interim Financial Report’. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 ‘Investment Entities: Applying the Consolidation Exception’, clarify the application of the consolidation exception for investment entities and their subsidiaries. The amendments to HKFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in HKFRS 10. The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity’s investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties. The amendments to HKAS 28 allows an entity which is not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a relief to retain the fair value measurement applied by the investment entity associate or joint venture, or to unwind the fair value measurement and instead perform a consolidation at the level of the investment entity associate or joint venture for their subsidiaries when applying the equity method.

Amendments to HKAS 1 ‘Disclosure Initiative’ clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

The key areas addressed by the changes are as follows:

- Materiality: an entity should not aggregate or disaggregate information in a manner that obscures useful information. An entity need not provide disclosures if the information is not material;
- Disaggregation and subtotals: the amendments clarify what additional subtotals are acceptable and how they should be presented;
- Notes: an entity is not required to present the notes to the financial statements in a particular order, and management should tailor the structure of their notes to their circumstances and the needs of their users;
- Accounting policies: how to identify a significant accounting policy that should be disclosed;
- Other comprehensive income from equity accounted investments: other comprehensive income of associates and joint ventures should be separated into the share of items that will subsequently be reclassified to profit or loss and those that will not.

The adoption of the above new standard and amendments did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2016.

(b) New standards and amendments of HKFRS issued but are not effective for the financial year beginning on 1 January 2016 and have not been early adopted by the Group

A number of new standards and amendments to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2016, and have not been early adopted by the Group in preparing the consolidated financial statements. The Group is yet to assess the full impact of these new standards and amendments and intends to adopt them no later than the respective effective dates of these new standards and amendments. These new standards and amendments are set out below:

Amendments to HKAS 12 'Income Taxes', effective for annual periods beginning on or after 1 January 2017.

Amendments to HKAS 7 'Statement of Cash Flows', effective for annual periods beginning on or after 1 January 2017.

HKFRS 15 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018

HKFRS 9 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018.

HKFRS 16 'Leases', effective for annual periods beginning on or after 1 January 2019.

Amendments to HKFRS 10 and HKAS 28 'Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture', originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

2. REVENUE AND SEGMENT INFORMATION

(i) Revenue

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics as well as garments. Revenues recognised for the year 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 perspective. From a product perspective, management assesses the performance from sales of yarn, grey fabrics and garment fabrics as well as garments. The operations are further evaluated on a geographic basis including Mainland China (and Hong Kong), Vietnam, Macao and Cambodia.

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 2016 is as follows:

	Year ended 31 December 2016								Total RMB'000
	Yarn			Garment fabrics and Garments			Grey fabrics		
	Mainland China and Hong Kong RMB'000	Vietnam RMB'000	Macao RMB'000	Mainland China and Hong Kong RMB'000	Cambodia RMB'000	Vietnam RMB'000	Mainland China RMB'000	Vietnam RMB'000	
Total revenue	10,702,807	5,754,305	10,903,975	338,403	76,037	-	608,234	-	28,383,761
Inter-segment revenue	(386,761)	(5,564,604)	(8,784,659)	-	-	-	-	-	(14,736,024)
Revenue (from external customers)	10,316,046	189,701	2,119,316	338,403	76,037	-	608,234	-	13,647,737
Segment results	982,782	354,307	549,931	30,979	(7,277)	(9,110)	41,606	(1,584)	1,941,634
Unallocated expenses									(52,087)
Operating profit									1,889,547
Finance income									9,752
Finance costs									(413,167)
Share of profits less losses of investments accounted for using the equity method									10,676
Income tax expense									(295,735)
Profit for the year									1,201,073
Depreciation and amortisation	(234,496)	(297,331)	(102)	(1,166)	(2,288)	(356)	(12,207)	-	(547,946)

The segment information for the year ended 31 December 2015 is as follows:

	Year ended 31 December 2015							Total
	Yarn			Garment fabrics and Garments		Grey fabrics		
	Mainland China and Hong Kong RMB'000	Vietnam RMB'000	Macao RMB'000	Mainland China RMB'000	Cambodia RMB'000	Mainland China RMB'000		
Total revenue	8,205,466	4,434,832	8,730,751	186,609	7,463	545,381	22,110,502	
Inter-segment revenue	(283,369)	(4,258,440)	(6,993,839)	–	–	–	(11,535,648)	
Revenue (from external customers)	<u>7,922,097</u>	<u>176,392</u>	<u>1,736,912</u>	<u>186,609</u>	<u>7,463</u>	<u>545,381</u>	<u>10,574,854</u>	
Segment results	494,003	285,237	356,380	2,472	(1,093)	30,138	1,167,137	
Unallocated expenses							(16,711)	
Operating profit							1,150,426	
Finance income							12,775	
Finance costs							(431,515)	
Share of profit of an associate							4,128	
Income tax expense							(146,846)	
Profit for the year							<u>588,968</u>	
Depreciation and amortisation	(204,372)	(236,189)	(110)	(61)	(365)	(13,469)	(454,566)	

The segment assets and liabilities as at 31 December 2016 are as follows:

	As at 31 December 2016									Total	
	Yarn				Garment fabrics and Garments			Grey fabrics			
	Mainland China and Hong Kong RMB'000	Vietnam RMB'000	Macao RMB'000	Sub-total RMB'000	Mainland China and Hong Kong RMB'000	Cambodia RMB'000	Vietnam RMB'000	Mainland China RMB'000	Vietnam RMB'000		
Total segment assets	8,845,466	3,992,467	419,211	13,257,144	362,774	52,131	324,417	440,766	358,225	14,795,457	
Unallocated assets										488,892	
Total assets of the Group										<u>15,284,349</u>	
Total segment liabilities				(6,341,931)	(221,857)	(5,602)	(129,352)	(44,328)	(287,525)	(7,030,595)	
Unallocated liabilities										(3,062,310)	
Total liabilities of the Group										<u>(10,092,905)</u>	
Capital expenditure	<u>971,502</u>	<u>147,526</u>	<u>37</u>	<u>1,119,065</u>	<u>140,708</u>	<u>29,297</u>	<u>297,558</u>	<u>5,500</u>	<u>331,678</u>	<u>1,923,806</u>	

The segment assets and liabilities as at 31 December 2015 are as follows:

	As at 31 December 2015							
	Yarn				Garment fabrics and Garments		Grey fabrics	Total
	Mainland China and Hong Kong	Vietnam	Macao	Sub-total	Mainland China	Cambodia	Mainland China	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Total segment assets	5,967,218	3,701,032	877,756	10,546,006	119,701	48,609	420,400	11,134,716
Unallocated assets								266,381
Total assets of the Group								<u>11,401,097</u>
Total segment liabilities				(4,351,356)	(47,555)	(10,752)	(36,957)	(4,446,620)
Unallocated liabilities								<u>(3,015,908)</u>
Total liabilities of the Group								<u>(7,462,528)</u>
Capital expenditure	<u>749,805</u>	<u>575,848</u>	<u>–</u>	<u>1,325,653</u>	<u>1,958</u>	<u>12</u>	<u>3,049</u>	<u>1,330,672</u>

3. OTHER INCOME AND OTHER GAINS/(LOSSES), NET

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other income		
Subsidy income (a)	<u>126,098</u>	<u>10,196</u>
Other gains/(losses) — net		
Gains on acquisition of subsidiaries	–	69,224
Gains on acquisition of associates and joint ventures	20,551	–
Derivative financial instruments at fair value through profit or loss:		
— Realised profits	43,383	1,476
— Unrealised profits	111,476	6,106
Net foreign exchange losses	(23,289)	(94,523)
Losses from Notes repurchase	(291)	(4,297)
Others	9,843	6,266
Total other gains/(losses) — net	<u>161,673</u>	<u>(15,748)</u>

- (a) The subsidy income were mainly related to incentives for development in Xinjiang, Xuzhou, Shandong and Shanghai, Mainland China and comprised of grants provided by municipal governments. The Group has received all the subsidy income and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Raw materials and consumables used	8,777,560	6,692,651
Changes in inventories of finished goods and work in progress	(125,721)	119,689
Employment benefit expenses	1,361,848	994,076
Depreciation and amortisation	547,946	454,566
Losses on disposal of property, plant and equipment and land use rights	11,691	3,544
Office expenses	93,301	69,408
Utilities	787,607	652,350
Transportation costs	343,957	241,555
Auditor's remuneration		
— Annual audit services	4,100	3,848
— Non-audit services	450	520
Rental expenses for buildings and machinery	42,278	42,267
Net reversal of provision for impairment of trade receivables	(2,588)	(2,299)
Net reversal of provision for decline in the value of inventories	(7,253)	(2,213)
Other expenses	210,785	148,914
	<u>12,045,961</u>	<u>9,418,876</u>

5. FINANCE INCOME AND COSTS

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interest expenses — borrowings	257,709	228,374
Interest expenses — finance lease obligations	8,406	10,942
	<u>266,115</u>	<u>239,316</u>
Net exchange losses on financing activities	165,750	196,395
Less: amount capitalised in property, plant and equipment	(18,698)	(4,196)
	<u>413,167</u>	<u>431,515</u>
Finance costs — net		
Finance income — interest income on bank deposits	(9,752)	(12,775)
	<u>403,415</u>	<u>418,740</u>

6. INCOME TAX EXPENSE

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax on profits for the year	250,531	138,548
Adjustment in respect of prior years	(1,149)	(2,425)
Deferred income tax	46,353	10,723
	<u>295,735</u>	<u>146,846</u>

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2015: 16.5%).

(b) Mainland China enterprise income tax (“EIT”)

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. According to the New CIT Law and DIR, subsidiaries established in Mainland China are subject to EIT at rate of 25% during the year (2015: 25%).

(c) Vietnam income tax

Subsidiaries established in Vietnam are subject to income tax at rate of 20% (2015: 22%).

As approved by the relevant Tax Bureau in Vietnam, the subsidiaries established in Vietnam in 2016, 2014, 2013 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 20% (2015: 22%).

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 20% (2015: 22%).

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% during the year (2015: nil to 22%).

(d) Other income or profits 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% (2015: 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 (2015: nil).

The subsidiary established in Uruguay is subject to income tax rate of 25% (2015: 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 year (2015: nil).

The subsidiary established in Turkey is subject to profits tax at rate of 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 year (2015: nil).

The subsidiary established in Cambodia is subject to profits tax at rate of 20%. As approved by relevant Tax Bureau in Cambodia, the subsidiary is entitled to exemption from profits tax during the year (2015: nil).

7. EARNINGS PER SHARE

(a) Basic

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

	2016	2015
Profit attributable to owners of the Company (RMB'000)	<u>1,187,531</u>	<u>590,826</u>
Weighted average number of ordinary shares in issue (thousands)	<u>892,932</u>	<u>884,681</u>
Basic earnings per share (RMB per share)	<u>1.33</u>	<u>0.67</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the Company's share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2016
Profit attributable to owners of the Company (RMB'000)	<u><u>1,187,531</u></u>
Weighted average number of ordinary shares in issue (thousands)	892,932
Adjustments for:	
— Share options (thousands)	<u>555</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u><u>893,487</u></u>
Diluted earnings per share (RMB per share)	<u><u>1.33</u></u>

For the year ended 31 December 2015, as the average annual market share price of the Company's shares was lower than the subscription price, the impact of exercise of the share options on earnings per share is anti-dilutive.

8. DIVIDENDS

The dividend paid in 2016 were RMB226,390,000 (2015: RMB143,177,000), being HKD0.30 per ordinary share (2015: HKD0.20 per ordinary share). A proposed final dividend in respect of the year ended 31 December 2016 of HKD0.26 (2015: HKD0.12) per share, amounting to a total dividend of RMB212,802,000 (2015: RMB89,155,000) is to be presented for approval at the annual general meeting of the Company on 13 April 2017. These financial statements do not reflect this as dividend payable.

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Interim dividend paid of HKD0.18 (2015: HKD0.12) per ordinary share	137,235	87,329
Proposed final dividend of HKD0.26 (2015: HKD0.12) per ordinary share	<u>212,802</u>	<u>89,155</u>
	<u><u>350,037</u></u>	<u><u>176,484</u></u>

9 INVENTORIES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Raw materials	2,168,041	1,255,572
Work-in-progress	117,580	66,008
Finished goods	<u>645,676</u>	<u>571,527</u>
	<u><u>2,931,297</u></u>	<u><u>1,893,107</u></u>

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB8,651,839,000 (2015: RMB6,812,340,000).

In 2016, the Group reversed an inventory provision of approximately RMB7,253,000 (2015: RMB2,213,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

As at 31 December 2016, inventories with a total net book amount of RMB393,000,000 (2015: nil) were pledged as collateral for the Group's bank borrowings.

10. TRADE AND BILLS RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	391,614	312,214
Less: provision for impairment	<u>(5,407)</u>	<u>(7,995)</u>
	386,207	304,219
Bills receivable	<u>1,203,783</u>	<u>727,560</u>
	<u><u>1,589,990</u></u>	<u><u>1,031,779</u></u>

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

As at 31 December 2016, bills receivable with a total net book amount of RMB206,797,000 (2015: nil) were pledged as collateral for the Group's bank borrowings.

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:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Within 30 days	788,378	600,610
31 to 90 days	668,960	355,858
91 to 180 days	128,085	74,278
181 days to 1 year	2,590	1,002
Over 1 year	<u>7,384</u>	<u>8,026</u>
	1,595,397	1,039,774
Less: provision for impairment	<u>(5,407)</u>	<u>(7,995)</u>
Trade and bills receivables — net	<u><u>1,589,990</u></u>	<u><u>1,031,779</u></u>

11. TRADE AND BILLS PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	296,039	184,473
Bills payable	<u>2,748,256</u>	<u>2,110,165</u>
	<u><u>3,044,295</u></u>	<u><u>2,294,638</u></u>

As at 31 December 2016, trade payables included amounts of RMB4,341,000 due to related parties (2015: included an amount of RMB221,000 due to an associate).

The ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) is as follows:

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	1,848,405	1,822,606
91 to 180 days	1,181,040	361,999
181 days to 1 year	9,347	1,232
Over 1 year	5,503	108,801
	<u>3,044,295</u>	<u>2,294,638</u>

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Assets:		
Forward foreign exchange contracts (<i>Note (a)</i>)	<u>317,882</u>	<u>61,087</u>
Liabilities:		
Interest rate swap contracts (<i>Note (b)</i>)	40	9,899
Forward foreign exchange contracts (<i>Note (a)</i>)	24,260	2,789
Cross currency swap contracts (<i>Note (c)</i>)	<u>7,975</u>	<u>–</u>
	<u>32,275</u>	<u>12,688</u>

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

Notes:

- (a) The forward foreign exchange contracts as at 31 December 2016 comprised 20 contracts with notional principal amounts totalling RMB5,555,718,000 (2015: 10 contracts with notional principal amounts totalling RMB2,402,632,000).
- (b) The interest rate swap contracts as at 31 December 2016 comprised one contract with notional principal amount of RMB173,425,000 (2015: 5 contracts with notional principal amounts totalling RMB1,694,836,000).
- (c) The cross currency swap contracts as at 31 December 2016 comprised 3 contracts with notional principal amounts totalling RMB626,150,000 (2015: nil).

CHAIRMAN'S STATEMENT

Results

The year 2016 saw the bottoming-out of cotton prices in the PRC which has benefitted the Chinese cotton textile industry as the domestic yarn prices have been gradually on the rise since the middle of the year. This is particularly favourable to yarn-spinning enterprises with a certain level of inventory of raw materials. In contrast, midstream enterprises engaging in weaving, dyeing and finishing, for example, may be subject to certain operational difficulties if they have failed to effectively adjust their prices. The differences between the prices of domestic and foreign cotton have been stable, which has contributed to the stability of the Group's operations as a whole.

The Group continued to be well-served by its spindle capacity as two new yarn spinning plants in Xinjiang and Vietnam commenced operation successively during the year. By the end of 2016, the plants have basically entered into the stage of high-efficiency operation, so the increase in yarn production volume continued into the second half of the year, thereby satisfying the customers' strong demand for the differentiated products of the Group. The Group's yarn sales volume hit a record high for the 10th consecutive year reaching approximately 600,000 tonnes, representing a strong increase of approximately 26% when compared to last year while yarn sales income exceeded RMB12 billion. Following the rising domestic cotton prices, the selling prices of cotton yarn also bounced back. With the complete consumption of low-cost raw materials, the gross profit margin of yarn exceeded normal levels, increasing from 18.4% of last year to 20.1% and substantially boosting the Group's profitability. During the year, the Group's profit attributable to shareholders reached an all-time high of RMB1,188 million and basic earnings per share amounted to RMB1.33, a surge of 101.0% and 98.5% respectively when compared to last year.

Besides the strong growth from the yarn business, we have also been actively preparing for expansion into the jeanswear sector. Through adjustments and restructuring carried out in 2016, the Group's jeanswear teams and production lines in Shandong and Cambodia were able to produce over 3 million pairs of jeans during the year, serving mainly the Chinese, Japanese, Korean and German customers. While there is room for improvement in respect to the profit margin, the Group has laid down a solid foundation for profit generation from the newly established business of jeanswear production and sales in Vietnam in 2017.

Outlook

As there is always fierce competition in the Chinese textile market, enterprises unable to distinguish themselves from their competitors in terms of product innovation, quality and services would eventually be eliminated. The Group has consistently executed its direction of development featuring equal emphasis on differentiation, scale expansion and international expansion because it is the best and only way for the Group to achieve sustainable growth and maintain profitability. In face of budding trade protectionist sentiment in the United States, the Group's presence in Vietnam provides a competitive edge unmatched by other domestic competitors.

Looking ahead to 2017, the Group will focus on the development of the jeanswear business. With its new plants in Vietnam as the mainstay, complimented by the acquired capacity in both China and Cambodia, the Group will not be overly aggressive in expansion, but will set its targets in earning the recognition of reputable brands by producing quality jeanswear meeting international standards in order to build up the bases for rapid expansion in the future. As the jeanswear business achieves a sizable scale and deals directly with renowned international brands, we believe the Group will then be able to firmly grasp the seasonal fashion trends for brands and jeanswear. At the same time, the Group may fully utilize its established advantages in the application of raw materials and production of denim yarns through combination with the international-standard denim weaving and finishing capabilities of our existing customers from the denim business and who will be responsible for the production of fabrics. In this way, the Group will not only reduce its own capital expenditure, but also generate mutual benefits for itself and each partner in the industry chain. The Group looks to achieve a high-level integration of the industry chain in Vietnam within a short period of time, so that the production, operation and management of the entire industrial chain may be completed within a single industrial zone. Thus, the Group could then respond to trends and deliver orders in a speedy manner to fully satisfy brands' requirements for, on the one hand, mitigating risks associated with inventory and, on the other hand, strategic increments in production orders to meet specific demands from consumers during the same fashion season. As the end result, the Group could then maximize both its sales volume and profit.

While developing the jeanswear business, the focus of our consideration lies in how to achieve harmony in pursuing progress and maintaining stability in such a way that the Group may follow a strategy for progressive development while possessing the capability to capture opportunities to achieve breakthroughs. Accordingly, it is possible that the Group may cooperate with existing garment manufacturers in the industry, both foreign and domestic, whether by merger and acquisition or joint venture. We entered into a joint venture agreement with Changzhou Hualida Garments Group Co. Ltd., on 24 February 2017 in relation to the joint venture in the establishment of garments production factory in Vietnam. We believe that this cooperation will achieve a mutually beneficial and win-win situation and bring a boosting effect for the successful overseas expansion and integration of industry chains for both sides.

The vitality of an enterprise hinges on its products, which must be constantly improved and modified to adapt to the latest market trends. Further, by committing to product development, enhancing the product mix, producing a greater variety of differentiated and high value-added products and offering a diversified portfolio of innovative products, the enterprise may increase the competitiveness of its existing businesses, which is fundamental to its sustainable development. The textile industry has always been highly competitive and it is at the spur of competition that the Group has persevered and prospered. The Group has begun to invest and set up plants in Vietnam a decade ago, and in this way has maintained our current leading position in the industry. Nowadays, we endeavour to ride on our advantages in Vietnam to develop the jeanswear business. We expect to thoroughly and successfully implement the concept of industry chain integration and look forward to reaching new heights of success for the Group in the foreseeable future.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present the annual results of the Group for the year ended 31 December 2016 to our shareholders. During the year, the Group's revenue grew by 29.1% to RMB13.65 billion when compared to last year. Profit attributable to shareholders surged by 101.0% to RMB1,188 million when compared to last year. Basic earnings per share also increased from RMB0.67 last year to RMB1.33. The year-on-year increase in the profit attributable to shareholders was mainly due to the strong growth in sales volume and increase in yarn prices while raw material costs rose.

Industry Review

With the gap between domestic and foreign cotton prices stabilizing and the bottoming-out of domestic cotton prices in 2016, the operating performance of cotton textile enterprises in the PRC generally improved during the year. However, domestic textile enterprises continued to show different performances in their respective operating conditions. Large corporations were gradually outstripping their competitors riding on their advantages in product innovation and scale of operation.

According to the statistics from the National Bureau of Statistics of the PRC, during 2016, enterprises with a sizeable capacity in the textile industry realized aggregate sales for principal activities valued at RMB7,330.2 billion, representing a year-on-year growth of 4.1%. Total profit amounted to RMB400.4 billion, representing a year-on-year growth of 4.5%. During 2016, exports in textiles and garments in the PRC was US\$267.6 billion, representing a year-on-year decrease of 5.9%. Among that total, US\$106.3 billion was attributable to textile exports and US\$161.3 billion to garments exports.

According to the statistics from the Customs of Vietnam, sales volume of yarn and staple in Vietnam grew by 21.4% to 1,167,000 tonnes in 2016 while sales increased by 15.3% from 2015 to US\$2.93 billion. Value of garments export grew by 4.6% to US\$23.84 billion.

Business Review

For the year ended 31 December 2016, the revenue of the Group reached a record high of RMB13.65 billion, representing an increase of 29.1% when compared to last year, principally driven by the growth in the sales volume of yarn.

Revenue of the Group comprises sales of yarn, grey fabric and garment fabrics as well as garments. During the year, yarn continued to be the major product of the Group, accounting for 92.5% of the Group's total revenue for the year, amounting to RMB12.63 billion and representing an increase of 28.4% when compared to last year. The increase was mainly driven by growth in sales volume. New capacity of approximately 630,000 spindles from the production plants of the Galaxy project in Vietnam and the Xinjiang project commenced full production successively in 2016. For the year ended 31 December 2016, driven by the expansion of production, the Group's yarn sales volume increased by 25.7% to a historical high of about 600,000 tonnes when compared to last year. Revenue from grey fabric and garment fabrics as well as garments was RMB1,023 million, around 7.5% of the Group's total revenue for the year.

The overall gross profit margin of the Group increased from 18.0% for the previous year to 19.4% for the year ended 31 December 2016. The increase was mainly attributable to the increase in yarn price driven by raw material prices and the lag in actual cost due to use of the existing raw material stock resulting in gross profit margins which were temporarily above normal.

For the year ended 31 December 2016, the Group recorded profit attributable to shareholders of RMB1,188 million, with basic earnings per share of RMB1.33, representing an increase of 101.0% and 98.5% respectively when compared to last year. The increase in profit attributable to shareholders was mainly attributable to maintaining a normal profit margin with a strong growth in sales volume. Besides, benefitting from an anomalous situation where the yarn price increased while inventory cost lagged, the gross profit margin was temporarily higher than normal, generating additional profit in the second half of the year.

The Group will continue to implement our established corporate strategies, optimize our product mix and develop new products that meet the market trends and needs. We target to further improve our financial performance by taking full advantage of the existing international presence of our production operation.

The Group has also strengthened its cooperation with INVISTA, an international core-spun spandex fibre manufacturer of the LYCRA® Brand, and Lenzing Fibers, the manufacturer of TENCEL® lyocell fibre and Modal® fibre as it has established a prolonged strategic partnership with both parties, and uses innovative fibre technology to produce trendy yet functional yarns to cater for the development in the differentiated high-end market. The Group also continued to reinforce its cooperative relationship with Toray of Japan. In response to market demand, our research and development centre has been improving product quality and developing products in order to maintain a leading position in the industry and to meet the demand of quality customers for different high-end products.

Prospect

Against the backdrop of orderly sales of national cotton reserve in the PRC in 2016, cotton prices bottomed out in 2016. As long as the PRC continues the practice of orderly sales of national cotton reserve, we expect that domestic and foreign cotton prices will remain relatively stable in 2017.

As of the end of 2016, the Group had a total of approximately 2.89 million spindles, 816 looms and 18 production lines of jeans concurrently engaged in high-efficiency operations, of which approximately 1.64 million spindles and approximately 1.25 million spindles were located in the PRC and Vietnam respectively. The production lines for weaving and downstream business newly-invested in Vietnam are expected to commence operation successively in 2017. The new production line of jeanswear acquired and being built in Shandong Province, the PRC should also be completed in the second half of 2017. In 2017, capital expenditure for the above investments are expected to amount to approximately RMB500 million in total. The sales target for 2017 is 690,000 tonnes of yarn, 90 million meters of grey fabric and 7 million pairs of jeans.

Heading into the year of 2017, the Group will push forward in implementing its strategy of setting up an industry chain platform in Vietnam. As successful commencement of the jeanswear business is our top priority, new production facilities for grey fabric and dyed fabric will support our current business as well as serve as a demonstration for the industry chain platform, in order to attract more existing denim fabric clients and industry players to establish their factories in the Vietnam industrial park. By capitalizing on our firm advantage of raw materials resources for denim yarn in Vietnam, coupled with the production capacity of our existing denim fabric clients, we expect to produce jeanswear of international standard quality at our newly-built jeanswear production lines. We endeavour to respond and deliver products with a quick turnaround in order to gain recognition from renowned brands, thus laying a solid foundation for rapid expansion in the future.

In July 2016, the Group was again named by *Fortune* magazine as one of its “*Fortune* 500 Chinese Companies 2016”, proof that the Group’s continuing expansion and its business model continues to gain wide recognition. The Group resolves to tirelessly strive for stronger operating results in order to bring long term and sustainable returns to its shareholders.

FINANCIAL REVIEW

Sales

The Group's sales mainly comprises the sales of yarns, grey fabrics and garment fabrics as well as garments. With the commencement of operation of our new production facilities in the PRC and Vietnam, along with the company-wide efforts, the sales of yarn increased by about 28.4% in 2016 as compared to that of 2015. Sales analyses of the Group by products are shown below.

	2016	2015	Sales change between 2016 and 2015
	RMB'000	RMB'000	
Stretchable core-spun yarns			
— Cotton	3,821,813	3,137,988	21.8%
— Denim	2,135,524	1,502,160	42.2%
— Synthetic fiber	992,237	767,034	29.4%
Other yarns			
— Cotton	2,340,275	1,737,316	34.7%
— Denim	1,966,129	1,483,649	32.5%
— Synthetic fiber	1,369,085	1,207,254	13.4%
Fabrics			
— Stretchable grey fabrics	528,279	465,706	13.4%
— Other grey fabrics	79,955	79,675	0.4%
— Garment fabrics	266,408	178,978	48.8%
Garments and others	148,032	15,094	880.7%
Total	<u>13,647,737</u>	<u>10,574,854</u>	<u>29.1%</u>

	Sales volume		Selling price		Gross profit margin	
	2016	2015	2016	2015	2016	2015
Stretchable core-spun yarns (Ton/RMB per ton)						
— Cotton	173,732	139,761	21,998	22,453	21.0%	18.3%
— Denim	90,375	65,705	23,630	22,862	24.3%	23.0%
— Synthetic fiber	41,712	34,076	23,788	22,510	22.3%	17.4%
Other yarns (Ton/RMB per ton)						
— Cotton	119,986	94,451	19,505	18,394	17.4%	18.9%
— Denim	109,472	83,574	17,960	17,753	18.9%	16.6%
— Synthetic fiber	64,113	59,364	21,354	20,336	15.4%	15.1%
Fabrics (Million meters/ RMB per meter)						
— Stretchable grey fabrics	53.3	45.9	9.9	10.1	11.9%	12.0%
— Other grey fabrics	11.4	13.7	7.0	5.8	8.6%	10.4%
— Garment fabrics	16.0	9.4	16.7	19.0	15.8%	17.5%

The Chinese textile market is the Group's major market, accounting for 87% of our total sales of 2016. The ten largest customers of the Group for 2016 are as follows:

Shaoguan Shunchang Weaving Factory Co., Ltd.
Ningbo Daqian Textile Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Zhejiang Limayunshan Textile Co., Ltd.
Toray International, Inc.
Zhejiang Jiaermei Textile Co., Ltd.
Yixing Lucky G And L Denim Co., Ltd.
Haining Denim Weaving Co., Ltd.
Zhejiang Seven Star Textile Co., Ltd.
Black Peony Textile Co., Ltd.

The Group has more than 3,000 customers. As the Group produces differentiated products, the Group does not rely on the orders from a particular customer. The ten largest customers only accounted for 15.7% of the total sales of 2016. The ten largest customers mentioned above have more than 5 years' business relationship with the Group.

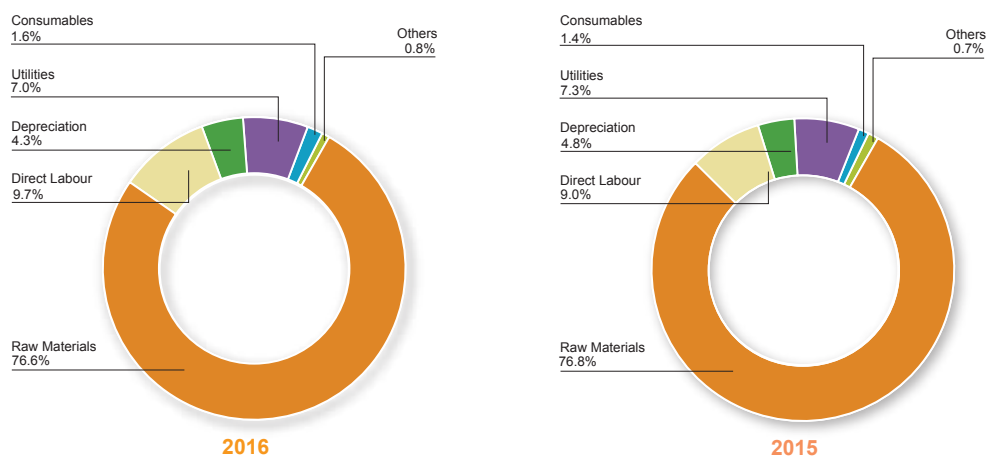
Gross profit and gross profit margin

Gross profit of the Group increased from RMB1.91 billion to RMB2.65 billion, representing an increase of 38.8% as compared to that of 2015. The overall gross profit margin also increased by 1.4 percentage point to 19.4% as compared to that of 2015. Increase in gross profit margin was mainly due to the increase in yarn price driven by raw material prices and the lag in cost of raw material stock.

Cost structure

Cost of sales increased by 26.9% to RMB11.0 billion when compared to that of 2015. Raw material cost accounted for about 76.6% of the total cost of sales of 2016. Cotton is our major raw material.

The breakdown of our cost of sales is shown below:



Selling and distribution costs

For the year ended 31 December 2016, the Group's selling and distribution costs amounted to RMB496.7 million, representing an increase of 34.6% when compared to that of 2015. The increase was attributable to the increase in transportation costs and salaries due to increase in sales volume.

General and administrative expenses

During 2016, the Group's general and administrative expenses increased by 43.5% to RMB546.7 million when compared to that of 2015, which represented 4.0% of the Group's sales. The increase was mainly due to the increase in salaries and other management costs.

Cash flows

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Net cash generated from operating activities	606,575	1,696,945
Net cash used in investing activities	(2,404,825)	(1,118,844)
Net cash generated from financing activities	1,671,436	267,724
Cash and cash equivalents at end of the year	1,813,208	1,940,022

For the year ended 31 December 2016, net cash generated from operating activities amounted to RMB606.6 million, which represents a decline comparing with 2015 mainly because of the significant increase of cash outflow of raw material purchase and the prepayment of cotton purchase required by the domestic cotton suppliers this year. Net cash used in investing activities amounted to RMB2,405 million, which was mainly used for the payment of capital expenditures for capacity expansion. During the year under review, net cash generated from financing activities amounted to RMB1,671 million, which was mainly contributed by the increase of current bank borrowings due to the increase of inventories and prepayment for raw materials.

Liquidity and financial resources

As at 31 December 2016, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,994.4 million (as at 31 December 2015: RMB2,187.7 million). The Group's inventories increased by RMB1,038.2 million to RMB2,931.3 million and our trade and bills receivables increased by RMB558.2 million to RMB1,590.0 million (as at 31 December 2015: RMB1,893.1 million and RMB1,031.8 million respectively). The inventory turnover days and trade and bills receivables turnover days were 79 days and 35 days respectively, compared to 73 days and 40 days in 2015. Increase in inventory turnover days was mainly attributable to the increase of cotton inventory level in China at the end of the year.

Trade and bills payables increased by RMB749.7 million to RMB3,044.3 million as at 31 December 2016 (as at 31 December 2015: RMB2,294.6 million), the payable turnover days was 87 days, compared to 82 days in 2015. Increase in the payable turnover days was mainly due to financing of increase in raw material inventories as compared to last year.

The Group increased the total bank borrowings by RMB2,056.2 million to RMB6,109.3 million as at 31 December 2016. Current bank borrowings increased by RMB2,001.9 million to RMB3,549.7 million while non-current bank borrowings increased by RMB54.3 million to RMB2,559.6 million. The increase in current bank borrowings was mainly attributable to the increase of short-term borrowings for the settlement of raw material payables required by the domestic cotton suppliers for prepayment of cotton purchase in full this year. In addition, the Group prepared funds for early redemption of the senior notes due 2019 by the end of the year resulting in an increase in borrowings.

As at 31 December 2016 and 2015, the Group's financial ratios were as follows:

	2016	2015
Current ratio	1.10	1.22
Debt to equity ratio ¹	1.19	1.04
Net debt to equity ratio ²	0.80	0.48

¹ Based on total borrowings over equity attributable to shareholders at each year end

² Based on total borrowings net of cash and cash equivalents and pledged bank deposits over equity attributable to shareholders at each year end

Borrowings

As at 31 December 2016, the Group's total bank borrowings amounted to RMB6,109.3 million, among which RMB2,923.5 million (47.9%) was denominated in Renminbi, RMB2,976.5 million (48.7%) was denominated in United States dollars ("US\$" or "USD") and RMB209.3 million (3.4%) was denominated in Hong Kong dollars ("HK\$" or "HKD"). These bank borrowings borne interest at rates ranging from 3.3% to 6.5% per annum (2015: 3.4% to 7.625%).

As at 31 December 2016, the Group has outstanding current bank borrowings of RMB3,549.7 million (2015: RMB1,547.8 million). Increase in current bank borrowings was mainly due to the increase of working capital borrowings in relation to the prepayment of cotton purchase and increase in inventories.

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

Bank borrowings of RMB658.2 million (2015: RMB282.0 million) were secured by the pledge of the Group's land use rights with a net book amount of RMB26.0 million (2015: RMB45.1 million); the pledge of the Group's property, plant and equipment with a net book amount of approximately RMB116.5 million (2015: RMB352.7 million); inventories with a net book amount of RMB393.0 million (2015: Nil) and bank acceptance amounted to RMB206.8 million (2015: Nil) as at 31 December 2016.

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 arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign exchange risk is mainly attributable to its borrowings and raw material procurement denominated in US\$. The Group manages its foreign exchange risks by performing regular reviews and closely monitoring its foreign exchange exposures.

To mitigate the risk of depreciation of Renminbi, the Group has taken steps to reduce its USD indebtedness exposure by cutting down its USD-denominated borrowings and purchasing a suitable amount of currency forward contracts and cross currency swap products. As at 31 December 2016, the net exposure of USD indebtedness of the Group was US\$50.59 million and this exposure is expected to be reduced further in 2017.

Capital expenditure

For the year ended 31 December 2016, the capital expenditure of the Group amounted to RMB1,924 million (2015: RMB1,331 million). It was mainly comprised of the investments in fixed assets in Vietnam and Mainland China.

Contingent liabilities

As at 31 December 2016, 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 April 2013, the Company and certain of its subsidiaries entered into 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 (the “2013 Notes”) due 2019. The indenture (the “Indentures”) governing the 2013 Notes provides that upon the occurrence of a change of control triggering event, the Company will make an offer to purchase all outstanding 2013 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 (“Mr. Hong”), 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 18 May 2015, by an agreement dated 18 May 2015 (“2015 Facility Agreement”) entered into by, among others, the Company as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a term loan facility (“2015 Facility”) of up to the aggregate principal amount of US\$110 million for any refinancing, repayment, redemption, purchase or repurchase of the 2011 Notes due in January 2016 issued by the Company, in whole or part, at or before their maturity. The 2015 Facility shall be fully repaid in May 2018 and is guaranteed by certain subsidiaries of the Company. The amount of the 2015 Facility represents approximately 27% of the total amount of banking/credit facilities (including the 2015 Facility) presently available to the Group. The 2015 Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong shall be and continue to be the chairman of the Company, directly or indirectly beneficially own not less than 25% of the total voting shares issued by the Company, and be and remain the single largest holder of the voting shares issued by the Company. A breach of such requirement will constitute an event of default under the 2015 Facility Agreement, and as a result, the 2015 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 announced by the Company on 20 April 2016, by an agreement dated 20 April 2016 (“2016 Facility Agreement”) entered into by, among others, Texhong Galaxy Technology Limited (“Texhong Galaxy”), 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 facility (“2016 Facility”) in the aggregate principal amount of up to US\$103,000,000 to finance the development of Texhong Galaxy’s production plant in Haiha District, Quang Ninh Province, Vietnam. The 2016 Facility shall be fully repaid in April 2023 and is guaranteed by the Company.

The 2016 Facility Agreement contains a requirement that Mr. Hong Tianzhu shall maintain, directly or indirectly, the status of the largest individual shareholder of the Company and maintain the position of chairman of the Group. A breach of such requirement will constitute an event of default under the 2016 Facility Agreement, and as a result, the 2016 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 2015 Facility Agreement and the 2016 Facility Agreement.

Human resources

As at 31 December 2016, the Group had a total workforce of 27,279 (as at 31 December 2015: 23,265), of whom 15,452 were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 11,827 employees stationed in regions outside Mainland China including Vietnam, Cambodia, 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 attributable to owners of the Company, providing shareholders with an equitable return. The Board has resolved to distribute a final dividend of 26 HK cents per share in respect of the year ended 31 December 2016 to shareholders whose names appear on the register of member on 25 April 2017 and will be payable on or about 2 May 2017, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 13 April 2017. An interim dividend of 18 HK cents per share was paid by the Company on 20 September 2016.

Closure of register of members

The register of members of the Company will be closed from 11 April 2017 to 13 April 2017, both days inclusive, during which no transfer of shares can be registered. To qualify for the 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 (the "Share Registrar"), Boardroom Share Registrars (HK) Limited, at 31st Floor, 148 Electric Road, North Point, Hong Kong, no later than 4:30 p.m. on 10 April 2017.

Conditional on the passing of the resolution approving the declaration of the final dividend by the shareholders in the forthcoming annual general meeting of the Company, the register of members of the Company will also be closed from 21 April 2017 to 25 April 2017, both days inclusive, during which no transfer of shares can be registered. To qualify for the final dividend to be approved at the annual general meeting of the Company, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar at the above address no later than 4:30 p.m. on 20 April 2017.

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

Save as disclosed below, there was no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the year ended 31 December 2016.

During the year ended 31 December 2016, the Company redeemed the 2011 Notes which were listed on the Singapore Exchange Securities Trading Limited and due in January 2016, in full upon maturity for an aggregate price of US\$155,514,000. The Company also repurchased some of the 2013 Notes listed on the Stock Exchange for an aggregate price of US\$17,830,000. The 2013 Notes were fully redeemed before maturity on 18 January 2017.

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 five 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. 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 (the "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 Company's code of conduct regarding the Directors' securities transactions during the reporting period.

Audit committee

The Company has established an audit committee (the “Audit Committee”) pursuant to a resolution of the Directors passed on 21 November 2004. The Audit Committee comprises three independent non-executive Directors, including Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming 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 2016.

Nomination committee

The Company has established a nomination committee (the “Nomination Committee”) pursuant to a resolution of the Directors passed on 19 March 2012. The Nomination Committee comprises an executive Director and the chairman of the Company, Mr. Hong Tianzhu and three independent non-executive Directors, namely Professor Tao Xiaoming, Professor Cheng Longdi and Mr. Ting Leung Huel, Stephen. The chairman of the Nomination Committee is Mr. Hong Tianzhu. The Nomination Committee has adopted terms of reference which are in line with the Code Provisions. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company’s policy if considered necessary.

Remuneration committee

The Company has established a remuneration committee (the “Remuneration Committee”) pursuant to a resolution of the Directors passed on 21 November 2004. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi and an executive Director and the chairman of the Company, 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.hkexnews.hk). An annual report for the year ended 31 December 2016 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange 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
3 March 2017

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

Executive Directors:

Mr. Hong Tianzhu
Mr. Zhu Yongxiang
Mr. Tang Daoping
Mr. Hui Tsz Wai
Mr. Ji Zhongliang

Independent non-executive Directors:

Mr. Ting Leung Huel, Stephen
Prof. Tao Xiaoming
Prof. Cheng Longdi