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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 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by 17.5% to RMB19.16 billion.
- Gross profit margin increased by 1.4 percentage point to 16.4%.
- Net profit margin decreased by 1.1 percentage point to 6.1%.
- Net profit decreased by 0.6% to RMB1,167.9 million.
- Profit attributable to shareholders increased by 1.0% to RMB1,163.1 million.
- Excluding the impact of the one-off accounting gain from acquisition of subsidiaries in 2017, profit attributable to shareholders would have increased by 19.4% of approximately RMB189 million.
- Earnings per share was RMB1.27.

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 2018, together with the comparative figures for 2017.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**19,155,709**	16,306,375
Cost of sales	*4*	**(16,009,884)**	(13,866,416)
Gross profit		**3,145,825**	2,439,959
Selling and distribution costs	*4*	**(685,124)**	(581,717)
General and administrative expenses	*4*	**(721,025)**	(511,930)
Net reversal of impairment losses on financial assets		**553**	–
Other income	*3*	**214,198**	169,555
Other losses — net	*3*	**(58,953)**	(64,690)
Operating profit		**1,895,474**	1,451,177
Finance income	*5*	**18,371**	9,162
Finance costs	*5*	**(511,863)**	(85,697)
Finance costs — net	*5*	**(493,492)**	(76,535)
Share of profits less losses of investments accounted for using the equity method		**21,918**	(12,820)
Profit before income tax		**1,423,900**	1,361,822
Income tax expense	*6*	**(255,957)**	(187,097)
Profit for the year		**1,167,943**	1,174,725
Attributable to:			
Owners of the Company		**1,163,092**	1,151,862
Non-controlling interests		**4,851**	22,863
		1,167,943	1,174,725
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	*7*	**RMB1.27**	RMB1.26
— Diluted earnings per share	*7*	**RMB1.27**	RMB1.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**1,167,943**	1,174,725
Other comprehensive income/(losses)		
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive income/(losses) of investments accounted for using the equity method — share of currency translation reserve	**–**	11,175
Currency translation differences	**5,180**	(8,878)
Total comprehensive income for the year	**1,173,123**	1,177,022
Attributable to:		
Owners of the Company	**1,168,272**	1,154,159
Non-controlling interests	**4,851**	22,863
	1,173,123	1,177,022

CONSOLIDATED BALANCE SHEET
As at 31 December 2018

		As at 31 December	
		2018	2017
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**1,011,183**	863,083
Property, plant and equipment		**7,716,921**	6,660,122
Intangible assets		**70,728**	–
Investments accounted for using the equity method		**204,707**	182,789
Deferred income tax assets		**96,391**	107,558
Other non-current assets		**236,102**	–
		9,336,032	7,813,552
Current assets			
Inventories	*9*	**5,211,292**	3,764,189
Properties under development		**226,058**	–
Trade and bills receivables	*10*	**1,783,774**	1,630,144
Prepayments, deposits and other receivables		**867,899**	637,229
Derivative financial instruments	*12*	**145,220**	134,350
Pledged bank deposits		**145,019**	88,249
Cash and cash equivalents		**1,054,721**	1,466,718
		9,433,983	7,720,879
Total assets		**18,770,015**	15,534,431
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		**96,709**	96,709
Share premium		**433,777**	433,777
Other reserves		**712,893**	616,374
Retained earnings		**5,495,258**	4,763,267
		6,738,637	5,910,127
Non-controlling interests		**98,185**	65,586
Total equity		**6,836,822**	5,975,713

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**4,875,187**	2,987,229
Deferred income tax liabilities		**161,690**	149,172
Finance lease obligations		**–**	1,587
Long-term payables		**122,893**	–
		5,159,770	3,137,988
Current liabilities			
Trade and bills payables	*11*	**3,522,714**	2,961,729
Contract liabilities		**88,272**	–
Accruals and other payables		**727,219**	741,451
Current income tax liabilities		**70,077**	36,562
Borrowings		**2,252,547**	2,562,369
Derivative financial instruments	*12*	**89,468**	112,996
Finance lease obligations		**831**	5,623
Long-term payables due within 1 year		**22,295**	–
		6,773,423	6,420,730
Total liabilities		**11,933,193**	9,558,718
Total equity and liabilities		**18,770,015**	15,534,431

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, 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.

The annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2018 but are extracted from those financial statements.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved and authorised for issue by the Board of Directors of the Company on 7 March 2019.

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 (HKFRSs) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. 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 HKFRSs 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.

1.1 Changes in accounting policies and disclosures

(a) New standards, amendments and interpretation of HKFRSs adopted by the Group in 2018

A number of new standards, amendments and interpretation to existing standards became applicable for the financial year beginning on 1 January 2018 and the Group had to change its accounting policies. The adoption of these new standards, amendments and interpretation did not give rise to any significant impact on the Group's financial statements. These new standards, amendments and interpretation are set out below:

(i) HKFRS 9 'Financial Instruments'

(ii) HKFRS 15 'Revenue from Contracts with Customers'

The impact of the adoption of the above two new standards and the new accounting policies are disclosed in Note 1.2 below.

(iii) Amendments to HKFRS 2 regarding classification and measurement of share-based payment transactions clarify the measurement basis for cash-settled share-based payments and the accounting for modification that change an award from cash-settled to equity-settled. They also introduce an exception to the classification principles in HKFRS 2. Where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority, the whole award will be treated as if it was equity-settled provided it would have been equity-settled without the net settlement feature.

Entities with the following arrangements are likely to be affected by these changes:

- equity-settled awards that include net settlement features relating to tax obligations

- cash-settled share-based payments that include performance conditions, and

- cash-settled arrangements that are modified to equity-settled share-based payments.

(iv) Amendments to HKFRS 4 'Insurance Contracts' address the concerns of insurance companies about the different effective dates of HKFRS 9 'Financial Instruments' and the forthcoming new insurance contracts standard. The amendments provide two different solutions for insurance companies: a temporary exemption from HKFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional.

HKFRS 4 (including the amendments) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standards becomes effective.

(v) Annual Improvements to HKFRSs 2014–2016 Cycle which were finalised in December 2016:

- HKFRS 1 — deleted short-term exemptions covering transition provisions of HKFRS 7, HKAS 19 and HKFRS 10 which are no longer relevant.

- HKAS 28 — clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

(vi) Amendments to HKAS 40 regarding transfers of investment property, clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterised as a non-exhaustive list of examples to help illustrate the principle.

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or

- retrospectively — only permitted without the use of hindsight.

Additional disclosures are required if an entity adopts the requirements prospectively.

(vii) HK (IFRIC) 22 'Foreign Currency Transactions and Advance Consideration', clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability).

If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt.

Entities can choose to apply the interpretation:

- retrospectively for each period presented
- prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or
- prospectively from the beginning of a prior reporting period presented as comparative information.

No retrospective adjustment has been made in respect of the adoption of the above new standards, amendments and interpretation of HKFRSs in 2018.

(b) New standards, amendments and interpretation of HKFRSs issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group

(i) HKFRS 16 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments (excluding leases relating to land use rights) of RMB206,511,000. Of these commitments, approximately RMB3,333,000 relate to short-term leases and RMB614,000 to low value leases which will both be recognised on a straight-line basis as expense in profit or loss. The management will take the exemption for short-term leases and low value leases.

For the remaining lease commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately RMB182,630,000 on 1 January 2019. Overall net current assets will be RMB33,478,000 lower due to the presentation of a portion of the liabilities as current liabilities.

The Group expects that net profit after tax will decrease by approximately RMB2,322,000 for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease by approximately RMB39,517,000 in 2019 as repayment of the principal and interest of the lease liabilities will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

(ii) HKFRS 17 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2021.

(iii) HK (IFRIC) 23 'Uncertainty over Income Tax Treatments', effective for annual periods beginning on or after 1 January 2019.

(iv) Amendments to HKFRS 9 regarding prepayment features with negative compensation, effective for annual periods beginning on or after 1 January 2021.

(v) Amendments to HKAS 28 regarding long-term interests in associates and joint ventures, effective for annual periods beginning on or after 1 January 2019.

(vi) Annual Improvements to HKFRSs 2015-2017 Cycle, effective for annual periods beginning on or after 1 January 2019.

(vii) Amendments to HKAS 19 regarding plan amendment, curtailment or settlement, effective for annual periods beginning on or after 1 January 2019.

(viii) Amendments to HKFRS 10 and HKAS 28 regarding 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.

(ix) Amendments to HKAS 1 and HKAS 8 regarding definition of material, effective for annual periods beginning on or after 1 January 2020.

(x) Amendments to HKFRS 3 regarding definition of a business, effective for annual periods beginning on or after 1 January 2020.

1.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 'Financial Instruments' and HKFRS 15 'Revenue from Contracts with Customers' on the Group's financial statements.

(a) HKFRS 9 'Financial Instruments'

Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 'Financial Instruments' from 1 January 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures are not restated with the exception of certain aspects of hedge accounting. The Group does not have any hedge instrument, hence the exception is not applicable to the Group. The Group used modified retrospective approach while adopting HKFRS 9. The adjustments arising from the new impairment rules are therefore not reflected in the balance sheet as at 31 December 2017.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables. The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the ageing days. On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables:

	Within 180 days	**181 days to 1 year**	**Over 1 year**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
1 January 2018				
Gross carrying amount	535,000	11,200	5,157	551,357
Expected loss rate	0.05%	25%	75%	1.26%
Loss allowance	268	2,800	3,868	6,936

The Group has performed the assessment and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of equity at 1 January 2018 was recognised.

(i) Classification and measurement

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group has reviewed its financial assets and liabilities and concludes that there is no significant impact on the classification and measurement of the financial assets and liabilities upon the adoption of the new standard since 1 January 2018, as the Group does not have the following financial assets or liabilities:

- Debt instrument or equity instrument that are classified as available-for-sale;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investments measured at fair value through profit or loss;
- Financial liabilities designated at fair value through profit or loss.

(ii) Derivatives and hedging activities

The Group's derivatives include forward foreign exchange contracts, cross currency swap contracts, and cotton accumulator swap contracts, which are initially recognised at fair value when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Derivative instruments held by the Group do not qualify for hedge instruments and are accounted for at fair value through profit or loss. Therefore there is no impact on the measurement of the derivatives upon the adoption of the new standard since 1 January 2018.

(iii) Impairment of financial assets

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables. The impact is immaterial to the loss allowance for trade receivables on 1 January 2018. The loss allowance increased by RMB1,858,000 for all trade receivables on a net basis during the current reporting period compared with the amount under the incurred loss model of HKAS 39.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

Impact of adoption

The Group has adopted HKFRS 15 'Revenue from Contracts with Customers' from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Revenue is recognised when control of the products has transformed, being when the customer has inspected and accepted the products. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. Sales are made with a credit term of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries, which is consistent with market practice. As a consequence, the Group does not adjust any of the transaction prices for the time value of money as there is no significant financing component. There is no material impact for adopting the HKFRS 15 on revenue recognition.

(i) Accounting for discounts

The Group rarely sold products with discounts. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated discounts. Accumulated experience is used to estimate and provide for the discounts, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur.

(ii) Accounting for refunds

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognized. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

(iii) Accounting for customer loyalty programme

The Group did not introduce any customer loyalty programmer which is likely to be affected by the HKFRS 15.

(iv) Accounting for costs to fulfil a contract

No additional cost occurs to fulfill the contract was identified.

(v) Presentation of assets and liabilities related to contracts with customers.

The Group has also voluntarily changed the presentation of the following amounts in the balance sheet to reflect the terminology of HKFRS 15.

- Contract liabilities in relation to deposits from customers were previously included in accruals and other payables, and are now separately disclosed in the balance sheet.

2. REVENUE AND SEGMENT INFORMATION

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.

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 yarns, 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, Cambodia, Nicaragua and starting from 2018, the USA.

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 2018 is as follows:

	Year ended 31 December 2018												
	Yarns			Garment fabrics and Garments						Grey fabrics			Total
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Macao	USA	Mainland China	Vietnam	Macao	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	13,134,158	7,666,199	13,700,098	2,258,937	170,720	562,993	30,379	50,057	480,337	822,851	531,139	331,876	39,739,744
Inter-segment revenue	(485,794)	(7,241,428)	(11,219,063)	–	(162,323)	(529,674)	(30,379)	(48,462)	(38,248)	–	(528,277)	(300,387)	(20,584,035)
Revenue (from external customers)	12,648,364	424,771	2,481,035	2,258,937	8,397	33,319	–	1,595	442,089	822,851	2,862	31,489	19,155,709
Timing of revenue recognition — At a point in time	12,648,364	424,771	2,481,035	2,258,937	8,397	33,319	–	1,595	442,089	822,851	2,862	31,489	19,155,709
Segment results	750,414	529,542	366,718	3,892	(9,388)	(28,150)	(3,526)	627	(771)	53,400	36,922	1,021	1,700,701
Unallocated profits													194,773
Operating profit													1,895,474
Finance income													18,371
Finance costs													(511,863)
Share of profits less losses of investments accounted for using the equity method													21,918
Income tax expense													(255,957)
Profit for the year													1,167,943
Depreciation and amortisation	(281,750)	(318,370)	(16)	(28,857)	(22,839)	(43,169)	(8,257)	–	(4,450)	(14,880)	(30,614)	–	(753,202)

The segment information for the year ended 31 December 2017 is as follows:

	Year ended 31 December 2017									
	Yarns			Garment fabrics and Garments				Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Mainland China	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	11,864,291	7,124,553	12,469,262	480,394	229,471	324,324	93,257	597,652	29,809	33,213,013
Inter-segment revenue	(364,783)	(6,790,829)	(9,722,334)	–	–	–	–	–	(28,692)	(16,906,638)
Revenue (from external customers)	11,499,508	333,724	2,746,928	480,394	229,471	324,324	93,257	597,652	1,117	16,306,375
Timing of revenue recognition										
— At a point in time	11,499,508	333,724	2,746,928	480,394	229,471	324,324	93,257	597,652	1,117	16,306,375
Segment results	704,008	440,958	236,148	27,932	(36,252)	(8,692)	6,746	697	(14,778)	1,356,767
Unallocated profits										94,410
Operating profit										1,451,177
Finance income										9,162
Finance costs										(85,697)
Share of profits less losses of investments accounted for using the equity method										(12,820)
Income tax expense										(187,097)
Profit for the year										1,174,725
Depreciation and amortisation	(289,427)	(330,218)	(54)	(26,038)	(12,218)	(5,484)	(587)	(9,161)	(8,772)	(681,959)

The segment assets and liabilities as at 31 December 2018 are as follows:

	As at 31 December 2018											
	Yarn				**Garment fabrics and Garments**					**Grey fabrics**		**Total**
	Mainland China and Hong Kong	**Vietnam**	**Macao**	**Sub-total**	**Mainland China and Hong Kong**	**Cambodia**	**Vietnam**	**Nicaragua**	**USA**	**Mainland China**	**Vietnam**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Total segment assets	**8,639,123**	**5,575,259**	**227,768**	**14,442,150**	**1,599,261**	**220,583**	**548,605**	**143,851**	**359,266**	**362,660**	**440,756**	**18,117,132**
Unallocated assets												**652,883**
Total assets of the Group												**18,770,015**
Total segment liabilities				**(6,148,083)**	**(887,929)**	**(28,243)**	**(402,800)**	**(1,867)**	**(219,895)**	**(36,505)**	**(345,396)**	**(8,070,718)**
Unallocated liabilities												**(3,862,475)**
Total liabilities of the Group												**(11,933,193)**
Capital expenditure	**995,553**	**695,662**	**8**	**1,691,223**	**42,813**	**7,401**	**85,491**	**41,126**	**3,083**	**20,684**	**111,594**	**2,003,415**

The segment assets and liabilities as at 31 December 2017 are as follows:

	As at 31 December 2017										
	Yarn				Garment fabrics and Garments				Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Sub-total	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Mainland China	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	7,972,965	3,910,724	495,216	12,378,905	926,361	315,363	607,633	157,145	463,002	399,216	15,247,625
Unallocated assets											286,806
Total assets of the Group											15,534,431
Total segment liabilities				(5,712,077)	(446,224)	(59,609)	(403,504)	(12,922)	(69,802)	(297,927)	(7,002,065)
Unallocated liabilities											(2,556,653)
Total liabilities of the Group											(9,558,718)
Capital expenditure	427,333	82,819	–	510,152	7,601	27,203	55,251	–	70,281	53,841	724,329

3. OTHER INCOME AND OTHER LOSSES — NET

	2018	2017
	RMB'000	*RMB'000*
Other income		
Subsidy income (a)	**214,198**	169,555
Other losses — net		
Gains on acquisition of subsidiaries	**–**	173,434
Gains on step-acquisition of an associate and its subsidiaries	**–**	4,027
Gains on disposal of subsidiaries	**7,679**	–
Gains on disposal of joint-ventures	**200**	–
Derivative financial instruments at fair value through profit or loss:		
— Realised (losses)/profits	**(3,601)**	19,725
— Unrealised losses	**(12,992)**	(238,616)
Net foreign exchange losses	**(65,925)**	(38,497)
Others	**15,686**	15,237
Total other losses — net	**(58,953)**	(64,690)

(a) The subsidy income were mainly related to incentives for development in Xinjiang, Xuzhou, Shandong, Changzhou and Shanghai of Mainland China provided by municipal governments based on the amounts of value added tax and income tax paid. The Group has received all the subsidy income and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

	2018 *RMB'000*	2017 *RMB'000*
Raw materials and consumables used	**13,068,997**	11,531,903
Changes in inventories of finished goods and work in progress	**(506,319)**	(341,213)
Employment benefit expenses	**2,193,451**	1,590,509
Depreciation and amortisation	**753,202**	681,959
Losses on disposal of property, plant and equipment and land use rights	**2,618**	5,985
Office expenses	**99,190**	82,596
Utilities	**1,036,364**	905,561
Transportation costs	**386,939**	358,460
Auditor's remuneration		
— Annual audit services	**4,000**	3,900
— Audit services for potential bond offerings	**–**	1,350
— Non-audit services	**1,430**	2,150
Rental expenses for buildings and machinery	**62,038**	35,119
Accrual of provision for impairment of trade receivables	**–**	1,734
Net accrual of provision for decline in the value of inventories	**4,445**	177
Other expenses	**309,678**	99,873
Total cost of sales, selling and distribution costs and general and administrative expenses	**17,416,033**	14,960,063

5. FINANCE INCOME AND COSTS

	2018 *RMB'000*	2017 *RMB'000*
Interest expenses — borrowings	**346,813**	270,868
Interest expenses — finance lease obligations	**250**	–
	347,063	270,868
Net exchange losses/(gains) on financing activities	**164,800**	(185,171)
Finance costs	**511,863**	85,697
Finance income — interest income on bank deposits	**(18,371)**	(9,162)
Net finance costs	**493,492**	76,535

6. INCOME TAX EXPENSE

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

	2018	2017
	RMB'000	*RMB'000*
Current tax on profits for the year	**262,064**	175,273
Adjustment in respect of prior years	**(13,317)**	(11,597)
Deferred income tax	**7,210**	23,421
	255,957	187,097

(a) Hong Kong profits tax

The Company's subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2017:16.5%).

(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 (2017: 25%).

As approved by the relevant tax bureau in Mainland China, the subsidiaries established in Xuzhou and Zhanjiang are entitled to a preferential tax rate of 15% effective till 31 December 2020.

(c) Vietnam income tax

The income tax for the major subsidiaries in Vietnam are as below:

As approved by the relevant tax bureau in Vietnam, Texhong Renze Textile Joint Stock Company established in Vietnam in 2006 should separately calculate income tax on its initial 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% (2017: 20%). The second supplementary investment of the subsidiary is entitled to two years' exemption from income taxes followed by four years of a 50% tax reduction based on the income tax rate of 20% (2017: 20%)

As approved by the relevant tax bureau in Vietnam, Texhong Yinlong Technology Ltd. and Texhong Galaxy Technology Limited established in Vietnam in 2014 and 2016, respectively are entitled to four years' exemption for 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.

The applicable tax rates for all subsidiaries in Vietnam range from nil to 20% during the year (2017: nil to 20%).

(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 Company's subsidiary established in Macao is subject to income tax rate of 12% (2017: 12%). 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 (2017: nil).

The Company's subsidiary established in Uruguay is subject to income tax rate of 25% (2017: 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 (2017: nil).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 20% (2017: 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 (2017: nil).

The Company's subsidiaries acquired in Cambodia in 2017 and 2015 are subject to income tax at the rate of 20% (2017: 20%). No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from these subsidiaries during the year (2017: nil).

The Company's subsidiary acquired in Nicaragua in 2017 is subject to income tax at the rate of 30% (2017: 30%). As approved by relevant Tax Bureau in Nicaragua, the subsidiary is entitled to exemption from profits tax during the year (2017: exempted) and effective till 31 December 2020.

The Company's subsidiaries acquired in Samoa in 2017 are exempted from profits tax during the year (2017: exempted).

The Company's subsidiaries acquired in the USA in 2018 are subject to income tax rate within the range from 27.5% to 30% during the year.

The Company's subsidiary acquired in Mexico in 2018 is subject to income tax at the rate of 35%.

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.

	2018	2017
Profit attributable to owners of the Company *(RMB'000)*	**1,163,092**	1,151,862
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Basic earnings per share (RMB per share)	**1.27**	1.26

(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.

	2018	2017
Profit attributable to owners of the Company (RMB'000)	**1,163,092**	1,151,862
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Adjustments for:		
— Share options (thousands)	**1,799**	1,317
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**916,799**	916,317
Diluted earnings per share (RMB per share)	**1.27**	1.26

8 DIVIDENDS

The dividend paid in 2018 were RMB340,262,000 (2017: RMB396,072,000), being HKD0.44 per ordinary share (2017: HKD 0.50 per ordinary share).

	2018	2017
	RMB'000	*RMB'000*
Final dividend for the year ended 31 December 2017 of HKD0.21 (2016: HKD0.26) per ordinary share	**156,160**	210,137
Interim dividend for the year ended 31 December 2018 of HKD0.23 (2017: HKD0.24) per ordinary share	**184,102**	185,935
	340,262	396,072

A proposed final dividend in respect of the year ended 31 December 2018 of HKD0.20 (2017: HKD0.21) per ordinary share, amounting to a total dividend of RMB160,345,000 (2017: RMB 160,618,000) is to be presented for approval at the annual general meeting of the Company on 26 April 2019. These financial statements do not reflect this as dividend payable.

	2018	2017
	RMB'000	*RMB'000*
Proposed final dividend for the year ended 31 December 2018 of HKD0.20 (2017: HKD0.21) per ordinary share	**160,345**	160,618

9 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**3,473,769**	2,600,507
Work-in-progress	**338,350**	279,705
Finished goods	**1,399,173**	883,977
	5,211,292	3,764,189

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB13,068,997,000 (2017: RMB11,531,903,000).

In 2018, the Group made an inventory provision of approximately RMB4,445,000 (2017: RMB177,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

As at 31 December 2018, no inventory was pledged as collateral for the Group's bank borrowings (2017: inventories with a total net book amount of RMB261,236,000 were pledged as collateral for the Group's bank borrowings).

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**787,107**	551,357
Less: provision for impairment	**(6,588)**	(7,141)
	780,519	544,216
Bills receivable	**1,003,255**	1,085,928
	1,783,774	1,630,144

As at 31 December 2018, included in the trade receivables were amounts due from related parties of RMB5,131,000 (2017: RMB3,019,000).

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

As at 31 December 2018, bills receivable with a total net book amount of RMB97,526,000 were pledged as collateral for the Group's bank borrowings (2017: no bills receivable were pledged).

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 (including amounts due to related parties of trading in nature) by invoice date is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**1,099,220**	1,171,995
31 to 90 days	**592,707**	364,234
91 to 180 days	**82,290**	84,699
181 days to 1 year	**11,414**	11,200
Over 1 year	**4,731**	5,157
	1,790,362	1,637,285
Less: provision for impairment	**(6,588)**	(7,141)
Trade and bills receivables — net	**1,783,774**	1,630,144

11. TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**693,210**	507,749
Bills payable	**2,829,504**	2,453,980
	3,522,714	2,961,729

As at 31 December 2018, included in trade payables were amounts due to related parties of RMB5,871,000 (2017: RMB4,557,000).

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

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

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**2,356,142**	1,900,496
91 to 180 days	**1,155,029**	1,021,831
181 days to 1 year	**8,003**	31,981
Over 1 year	**3,540**	7,421
	3,522,714	2,961,729

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2018	2017
	RMB'000	*RMB'000*
Assets:		
Forward foreign exchange contracts (Note (a))	**125,609**	117,580
Cross currency swap contracts (Note (b))	**17,946**	324
Cotton future contracts (Note (c))	**1,665**	16,446
	145,220	134,350
Liabilities:		
Forward foreign exchange contracts (Note (a))	**18,562**	50,282
Cross currency swap contracts (Note (b))	**68,235**	62,714
Cotton future contracts (Note (c))	**2,671**	–
	89,468	112,996

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

Notes:

(a) The forward foreign exchange contracts as at 31 December 2018 comprised thirty-one contracts with notional principal amounts totalling RMB5,292,117,000 (2017: thirty-one contracts with notional principal amounts totalling RMB3,861,712,000).

(b) The cross currency swap contracts as at 31 December 2018 comprised twenty-six contracts with notional principal amounts totalling RMB4,622,139,000 (2017: thirteen contracts with notional principal amounts totalling RMB1,630,025,000).

(c) The cotton future contract as at 31 December 2018 comprised eleven contracts with notional principal amounts totalling USD24,263,000 (2017: four contracts with notional principal amounts totalling USD7,103,000).

CHAIRMAN'S STATEMENT

Results

In 2018, the friction between China and the United States escalated from trade issues to a full-scale conflict as against changing complicated landscapes in global politics and economy. As policies and reforms in China triggered rising costs of domestic enterprises amid changing international market conditions, the second half of the year witnessed a significant impact on the domestic economy and consumer sentiment, while consumer spending and various economic indicators demonstrated a sign of economic slowdown. As a result, corporations were exposed to enormous threats and pressure.

Notwithstanding the abovementioned conditions, in order to satisfy customers' strong demand for the differentiated products of the Group, we continued to expand our yarn production capacity. In 2018, approximately 470,000 spindles were added in accordance with the original two-year expansion plan. However, as most of the new capacity was only put into trial production in the second half of the year or even in the fourth quarter, alongside the accelerated production rate due to vertical integration of the industry chain in Vietnam during the year, the output of our self-produced yarns used for grey fabrics production increased rapidly, even though the Group's sales of yarns hit record high for the twelve consecutive years at approximately 660,000 tonnes, only representing a slight increase when compared with 647,000 tonnes last year. As the selling prices of yarns returned to a relatively normal level in 2018 from the abnormal sales market in 2017, revenue from sales of yarns increased by approximately 6.7% to RMB15.5 billion when compared with last year. We also broke sales records of garment fabrics, which was produced by our vertically integrated production line of spinning, weaving, and dyeing and finishing processes in Vietnam. The sales of our self-produced woven dyed fabrics reached 42 million metres, with revenue exceeded RMB600 million.

Affected by Sino-US trade frictions in the second half of 2018, especially the fourth quarter, the consumer market saw a temporary impact on the sales orders and product mix of yarns, and the expectation that sales and profit margin during the second half would outperform that of the first half was missed. Nonetheless, the annual gross profit margin of yarns returned to 17.9% from 16.3% last year, while the profit attributable to shareholders of the Group for 2018 was RMB1.16 billion and the basic earnings per share was RMB1.27, both representing an increase of 1.0% over the same period last year. Excluding the one-off accounting gain of RMB177 million derived from acquisition of subsidiaries in the same period last year, the profit attributable to shareholders would have increased by approximately RMB189 million in 2018 as compared to that of last year, representing a year-on-year increase of over 19%.

To better facilitate the vertical integration of the Group's industry chain, we, following long-term exploration and months of negotiations, entered into an agreement with the Winnitex Group, a leading group in the weaving and dyeing industry, on 7 December 2018. Both parties thereto merged their woven fabrics, and dyeing and finishing businesses into a joint venture, 80% of which is held by Texhong and 20% by Winnitex Group. The joint venture will harness the existing resources of both parties to develop the dyeing business of high-quality woven fabrics that are produced through our vertical integration of spinning, weaving, and dyeing and finishing processes. Such business is managed by the existing management team of Winnitex Group, and will become an important cornerstone for the Group to carve out a global leading vertically integrated businesses within the industry chain.

Outlook

Since 2015, we have been developing our midstream and downstream production lines in Vietnam, all of which have reached sizeable operations in 2018. In particular, the dyeing and finishing and garment businesses are brand new for the Group, thus recording losses due to insufficient sales orders and proven production technology at the initial stage of production. Owing to tremendous teamwork efforts, targeted acquisitions in the market, and our cooperation with powerful partners, the losses in the said business operation is believed to end in 2018. Looking into the year of 2019, our jeanswear business is expected to enter a profitable period. The garment company, which is a joint venture between Changzhou Hualida and us and started generating profits in 2018, will continue to expand in 2019.

As for the woven dyeing and finishing business, a joint venture with Winnitex Group, leveraging on over 50 years of their experience and reputation of Winnitex Group in the industry, we will firstly build a premier woven fabric enterprise, operating production bases integrated with the spinning, weaving, and dyeing and finishing processes in China, Vietnam and Nicaragua at an annual production capacity of 180 million metres of fashion fabrics and special workwear fabrics, as well as having the ability to distribute products to customers worldwide. It is expected that its sales revenue can reach RMB4 billion annually. By tapping into the production techniques, product development capacity, solid customer base and popularity of Winnitex Group, we expect that the existing woven dyeing and finishing plants in Vietnam and Nicaragua will turn from losses last year into profits in 2019. In addition to the profitability of Winnitex Group, the Group will achieve horizontal expansion based on our yarn business, and vertically attain the vertical integration of the midstream and downstream businesses, so as to enhance profitability and stability.

Having built premium production and operation conditions for our industry chain platform in the industrial park in Northern Vietnam, we rapidly achieved high-level industry chain integration in Vietnam, allowing us to complete production, operation and management of the entire industry chain in a single industrial park. Our expedient delivery can satisfy the requirements of the current brands to minimise inventory risks and place additional orders to meet consumer demands during the same season. The Group began to invest in and establish plants in Vietnam a decade ago, having proven to be an initiative that has enabled us to maintain our industrial leadership to date. We expect to implement and carry out our industry chain integration concept so that the Group will continue to thrive in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2018. During the year, the Group's revenue grew by 17.5% to RMB19.16 billion when compared with last year. Profit attributable to shareholders of the Company increased by 1.0% to RMB1,163 million against last year. Basic earnings per share also increased slightly to RMB1.27 from RMB1.26 last year. Excluding the one-off accounting gain of RMB177 million from acquisition of subsidiaries in the same period last year, the profit attributable to shareholders increased by approximately RMB189 million when compared with last year, representing a year-on-year increase of 19.4%.

Industry Review

According to statistics from the National Bureau of Statistics of the PRC, the aggregate sales achieved by sizeable textile enterprises amounted to RMB2,786.3 billion in 2018, representing a 0.2% decrease year-on-year, with profit totalling at RMB126.5 billion, up by 5.3% year-on-year. Sizeable garment and apparel enterprises recorded total sales in the amount of RMB1,741.8 billion, representing a year-on-year increase of 4.2%, with net profit at RMB100.68 billion, up by 10.8% year-on-year. In terms of production volume, in 2018, 29.16 million tonnes of yarn, 49.4 billion metres of fabrics and 49.21 million tonnes of synthetic fibre were produced. According to data from PRC Customs, in 2018, US$119.1 billion worth of textile products were exported from the country, representing a year-on-year increase of 8.12%. US$157.6 billion worth were garments, representing a year-on-year increase of 0.29%.

According to statistics from Vietnam Customs, the sales volume of yarn and staple of the country grew by 8.7% to 1.466 million tonnes in 2018, bringing in sales income of US$3,987 million, up by 11.0% when compared with 2017. Garments exports grew by 16.6% to US$30.447 billion.

Business Review

For the whole year of 2018, revenue of the Group reached record high at RMB19.16 billion, representing an increase of 17.5% when compared with last year. In addition to the steady growth in sales of yarns, all the midstream and downstream business segments also recorded growth.

The Group derives revenue from sales of yarns, grey fabrics, garment fabrics as well as jeanswear. During the year, sales of yarns reached RMB15.5 billion, an increase of 6.7% when compared with last year, accounting for 81.2% of the Group's total revenue for the year. The increase was mainly driven by the rebound in selling prices of products. Following the development of the other midstream and downstream businesses over a period in the past, these businesses recorded sales revenue of RMB3.6 billion in 2018, which is more than double of the sales revenue in 2017, mainly as a result of growth in sales of dyed fabrics.

In 2018, the Group's total production volume of yarns was approximately 720,000 tonnes. As trial run for most of the new capacity only started in the second half the year and approximately 45,000 tonnes of the yarns produced by the Group were used by its midstream and downstream businesses, growth in external sales of yarns slightly slowed down in 2018. In addition, the chain effect sparked by the Sino-US trade dispute affected consumer market and in turn the sales orders received by the Group in the fourth quarter. As a result, external sales of yarns increased by a slight 2.0% to approximately 660,000 tonnes, falling short of the target of 700,000 tonnes set for the year of 2018. The Group's new yarn production capacity after satisfying internal needs shall be fully utilized to fulfil external demand. During the year under review, in the absence of abnormal market demands in the same period last year, the gross profit margin of yarns returned to normal at approximately 18%. Assuming that the Sino-US trade dispute had no impact, the Group would have made higher sales and have a higher gross profit margin.

As for our grey fabrics production, the Group's grey fabric factory in northern Vietnam started full production in mid-2018 after completing trial run in the second half of 2017. Although a fair portion of the fabrics produced was used by the Group's dyeing factory in Vietnam to meet increased sales orders, sales of grey fabrics still saw a significant increase by approximately 45% against last year, to approximately 96 million metres. Benefitting from partial vertical integration of the fabrics and yarn factories in Vietnam, the average gross profit margin of grey fabrics also increased markedly to 14.8%. Nonetheless, as production of grey fabrics in China did not involve in the vertical integration, the overall gross profit margin of grey fabrics production business has been dragged down. As commanded by the need for vertical integration of the various factories in Vietnam, the grey fabrics business in Vietnam will first satisfy the internal demands of the dyeing factory in Vietnam, whereas a part of the production capacity of grey fabrics in PRC market will be used to satisfy the demands of the joint venture with Winnitex Group to better benefit from vertical integration. Therefore, the Group expects external sales of grey fabrics to temporarily reduce until new production facility will be built in future.

As for woven dyed fabrics, with the completion of trial production of the Group's woven fabric factory in northern Vietnam in the second half of 2017 and the acquisition in May 2017 of the Asian denim business (including a woven fabric factory in Nicaragua) of Nien Hsing Group in Taiwan, revenue from sales of woven fabrics amounted to approximately RMB612 million in 2018, representing an increase of 24% when compared with last year, with sales volume reaching 42 million metres. As for woven fabrics trading business, as textile trading companies in North America were acquired by the Group during the year, sales of woven fabrics increased notably to 24 million metres, generating revenue of RMB511 million. Despite incurring loss in the first half year due to serious order shortage, the woven fabrics production business in Vietnam managed to breakeven by the fourth quarter with capacity utilization reaching more than 80%. As the Group's woven fabric production business is at an early stage of development, it currently has a single-digit gross profit margin. However, with the intergration of the relevant production business of Winnitex Group with that of the Group, the production technology, product development and marketing capabilities of the woven dyed fabric business will markedly improve. The business is expected to turn around to profit in 2019 and gradually reach world-class level under the management of Winnitex Group.

Regarding knitted dyed fabrics, following the acquisition of the knitting and dyeing plant which was originally an associate company at the end of 2017 by increasing 51% to 100% equity interest, the Group also began to try to build a dyeing production line for knitted fabrics in Vietnam in 2018. For the year of 2018, the Group sold self-produced dyed knitted fabrics of approximately 15,000 tonnes in all, and approximately 1,900 tonnes were sold via trading. The gross profit margin of self-produced knitted fabrics was 15.5%. As the knitted fabric factory only became wholly owned by the Group this year and the Sino-US trade dispute also affected the business in the second half of the year, internal reform will be required to improve production and order taking efficiency of the business. Alongside, with the increasing use of self-produced yarns which help vertical integration and increase in production capacity in Vietnam, the business is expected to see notable enhancement in profitability.

As for jeanswear business, as the acquisition of jeanswear business was completed on 1 May 2017, together with the production base in Shandong of China, sales of the jeanswear business exceeded RMB822 million, representing an increase of approximately 30% when compared with the same period last year. The sales volume was approximately 15.5 million pairs of jeans in 2018, which was lower than the original sales target of 18 million pairs of jeans, mainly due to the slightly slower adjustment of business orders than expected. As the adjustment was completed in the second half year, the business has been improving and is expected to start making profit in 2019.

The overall gross profit margin of the Group increased from 15.0% in 2017 to 16.4% in 2018, which was mainly attributable to the fact that the prices of some yarns survived from the market pressure in 2017. Except for impacts of the Sino-US dispute in the fourth quarter of 2018, market conditions basically remained normal. Gross profit margin of the yarn business was 18%, back in the normal range. Moreover, other business operations have also improved and contributed to the increased overall gross profit margin of the Group. However, the new business segment was still in early development stage with a much lower gross profit margin than the yarn business. It is expected that such business will outperform the profitability of the yarn business following constant improvement and enhancement of the vertical integration initiatives, which in turn will further improve and stabilize the overall gross profit margin of the Group.

In 2018, the Group recorded profit attributable to shareholders of RMB1,163 million and basic earnings per share was RMB1.27, representing a slight increase of 1.0%, respectively, when compared with those last year. In spite of the rebound in profit of the yarn business and improved profits in other business segments, the profit attributable to shareholders remained basically the same as in the previous year because of the absence of the one-time accounting gains on acquisitions in the same period last year.

Prospects

With the two sides in the Sino-US trade dispute in active negotiations, the market is seeing a ray of hope. Even though complete agreement between the two countries might not be reached within a short period, latest progress should help ease pressure on the market and stabilise the consumer market and commodity prices, otherwise the market would feel a severe blow and almost industries would be affected.

As at the end of 2018, the Group's major production facilities were equipped with approximately 3.50 million spindles and 1,389 looms. Of all the spindles, approximately 2.12 million were in the PRC and approximately 1.38 million were in Vietnam. With the uncertainties in Sino-US trade dispute, the Group will slightly slow down its investment in China. Outside China though, to back the woven dyed fabrics business which the Group and Winnitex Group jointly invested in, the Group will focus on expanding the existing woven dyed fabrics production lines in Vietnam and Nicaragua in 2019, as well as adding spinning and weaving facilities to supply for the dyeing and finishing process. We target to build a vertically integrated dyed woven fabrics production base with spinning, weaving, dyeing and finishing processes handled all under one roof. Those undertakings, when all completed, combined with Winnitex Group's existing production base in China, will see the Group become a comprehensive integrated dyed woven fabrics business that can effectively avert trade barriers and restrictions and serve customers worldwide, showing its integrated capability to develop, produce and distribute annually more than 180 million metres of woven dyed fabrics for fashionable garments and special workwear.

In addition to the original two-year expansion plan for 2018 and 2019, in developing overseas yarn bases, the Group will acquire and build facilities with approximately 80,000 spindles in Turkey so that it may quickly respond to and directly meet local markets demand, and in turn increase related profit.

The expansion plan of the Group in 2019 is expected to cost approximately RMB1.5 billion, excluding the consideration for the acquisition of Winnitex Group to form the joint venture. Excluding the sales volume under trading business, the Group targets to sell 720,000 tonnes of yarns, 80 million metres of grey fabrics, 120 million metres of woven dyed fabrics, 18,000 tonnes of knitted dyed fabrics and 18 million pairs of jeans in 2019.

After the Group's efforts to adjust and consolidate the jeanswear business in the last two years, the business is set to advance more efficiently in the future. Thanks to the continuous exertion of the Group in seeking garment and fabrics suppliers outside China by famous brand names, the business is expected to start generating profits in 2019. The Group will also continue to implement the strategy of establishing industrial chain platforms in Vietnam to foster vertical integration of production for its various dyed fabrics and garment businesses.

On 19 July 2018, the Group was again named among the "Fortune 500 Chinese Companies 2018", and ranked third by the China Cotton Textile Association among cotton textile enterprises in terms of comprehensive competitiveness, a strong endorsement of the Group continuously expanding business and proven business. The Group will continue to work tirelessly, putting in its best effort, to bring long term and sustainable returns to shareholders.

Financial Review

Sales

The Group's sales mainly comprises the sales of yarns, grey fabrics and garment fabrics, as well as jeanswear. Yarns continued to be its major product. With the commencement of operations of our new production facilities, and the commitment of staff members, the sales of yarns increased by about 6.7% in 2018 as compared to that of 2017. Sales analyses of the Group by products are shown below.

	2018 *RMB'000*	2017 *RMB'000*	Revenue change
Stretchable core-spun yarns	**7,993,929**	7,958,705	0.4%
Other yarns	**7,560,241**	6,621,455	14.2%
Stretchable grey fabrics	**649,110**	467,367	38.9%
Other grey fabrics	**208,092**	131,402	58.4%
Woven garment fabrics	**1,122,412**	493,554	127.4%
Knitted garment fabrics	**799,864**	–	–
Jeans	**822,061**	633,892	29.7%
Total	**19,155,709**	16,306,375	17.5%

	Sales volume		**Selling price**		**Gross profit margin**	
	2018	2017	**2018**	2017	**2018**	2017
Stretchable core-spun yarns (Tonne/RMB per tonne)	**329,954**	337,794	**24,227**	23,561	**18.6%**	17.1%
Other yarns (Tonne/RMB per tonne)	**330,438**	309,672	**22,879**	21,382	**17.2%**	15.3%
Stretchable grey fabrics (Million metres/RMB per metre)	**69.9**	48.1	**9.3**	9.7	**13.3%**	5.1%
Other grey fabrics (Million metres/RMB per metre)	**25.6**	17.8	**8.1**	7.4	**19.7%**	–5.3%
Woven garment fabrics (Million metres/RMB per metre)	**66.4**	29.3	**16.9**	16.8	**7.7%**	7.5%
Knitted Garment fabrics (Tonne/RMB per tonne)	**16,753**	–	**47,745**	–	**14.5%**	–
Jeans (Million pairs/RMB per pair)	**15.5**	13.1	**53.0**	48.4	**3.7%**	2.3%

The Chinese textile market is the Group's major market, accounting for 73.5% of our total sales of 2018. The ten largest customers of the Group for 2018 are as follows:

Toray International, Inc.
Shaoguan Beijiang Smart Textile Technology Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Ningbo Daqian Textile Co., Ltd.
American Eagle Outfitters, Inc.
TCE Vina Denim Joint Stock company
Chintex Enterprises Ltd.
Yixing Magnolia Garment Co., Ltd.
Haining Denim Weaving Co., Ltd.
Zhejiang Limayunshan Textile Co., Ltd.

As at the date of this announcement, the Group has more than 3,000 customers. As the Group produces differentiated products, the Group does not rely on orders from a particular customer. The ten largest customers only accounted for 17.0% of the total sales of the Group for the year ended 31 December 2018 and each one of them has a more than 5 years' business relationship with the Group.

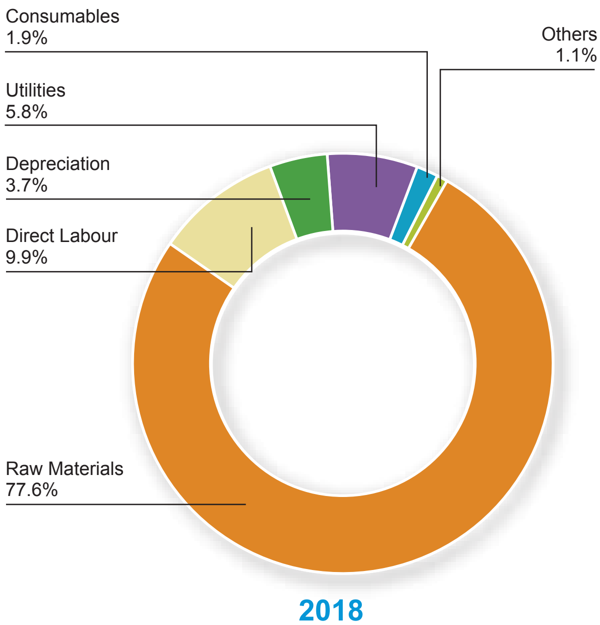
Gross profit and gross profit margin

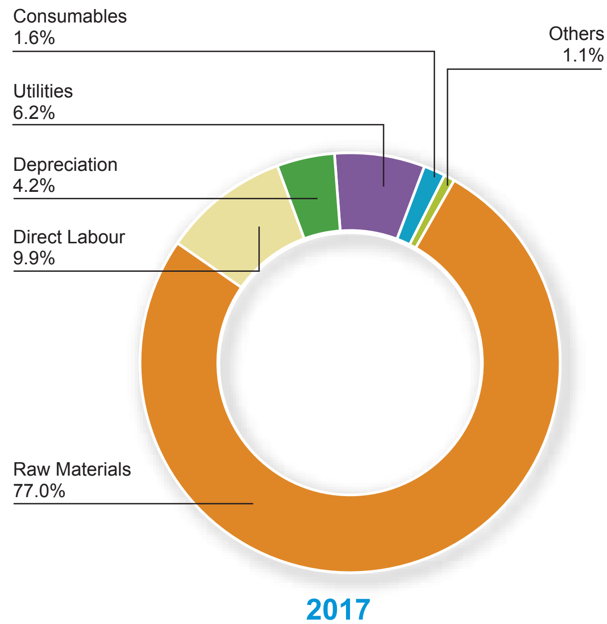
Gross profit of the Group increased from RMB2.44 billion to RMB3.15 billion, representing an increase of 28.9% as compared to that of 2017. The overall gross profit margin also increased by 1.4 percentage point to 16.4% as compared to that of 2017. In 2018, the gross profit margin of the yarn business recovered to the normal range of 18% and the operation of other business segments also improved, leading to an increase in the overall gross profit margin.

Cost structure

Cost of sales increased by 15.5% to RMB16.0 billion when compared to that of 2017. Raw materials cost accounted for about 77.6% of the total cost of sales of 2018. Cotton is our major raw materials.

The breakdown of our cost of sales is shown below:





Selling and distribution costs

For the year ended 31 December 2018, the Group's selling and distribution costs amounted to RMB685.1 million, representing an increase of 17.8% when compared to that of 2017. The increase was attributable to the increase in transportation costs and salaries of sales personnel due to increase in sales volume.

General and administrative expenses

For the year ended 31 December 2018, the Group's general and administrative expenses increased by 40.8% to RMB721 million when compared to that of 2017, which represented 3.8% of the Group's sales. The increase was mainly due to the increase in research and development expenditures and expenses of the newly acquired business.

Cash flows

	2018 ***RMB'000***	2017 *RMB'000*
Net cash generated from operating activities	**766,684**	2,192,611
Net cash used in investing activities	**(1,821,900)**	(1,337,721)
Net cash generated from/(used in) financing activities	**643,219**	(1,201,380)
Cash and cash equivalents at end of the year	**1,054,721**	1,466,718

For the year ended 31 December 2018, net cash generated from operating activities amounted to RMB766.7 million, which represents an significant decrease comparing with 2017 mainly because of the significant increase in cash outflow of raw material purchase this year. Net cash used in investing activities amounted to RMB1,821.9 million, which was mainly used for the payment of capital expenditures for capacity expansion and acquisitions of subsidiaries. During the year under review, net cash generated from financing activities amounted to RMB643.2 million, which was mainly used in financing for capital expenditures.

Liquidity and financial resources

As at 31 December 2018, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,199.7 million (as at 31 December 2017: RMB1,555.0 million). The Group's inventories increased by RMB1,447.1 million to RMB5,211.3 million and our trade and bills receivables increased by RMB153.6 million to RMB1,783.8 million (as at 31 December 2017: RMB3,764.2 million and RMB1,630.1 million respectively). The inventory turnover days and trade and bills receivables turnover days were 101 days and 32 days respectively, compared to 87 days and 36 days in 2017. Increase in inventory turnover days was mainly attributable to the increase in average inventory for the year due to the increase of raw material purchase for new production capacity in the second half of 2018.

Trade and bills payables increased by RMB561.0 million to RMB3,522.7 million as at 31 December 2018 (as at 31 December 2017: RMB2,961.7 million), the payable turnover days was 73 days, compared to 78 days in 2017. Decrease in the payable turnover days was mainly due to early settlement of part of bills payable to try to reduce the overall liability level.

The total bank borrowings of the Group increased by RMB1,578.1 million to RMB7,127.7 million as at 31 December 2018. Current bank borrowings decreased by RMB309.8 million to RMB2,252.5 million while non-current bank borrowings increased by RMB1,888.0 million to RMB4,875.2 million. The increase in the proportion of non-current bank borrowings enhanced the stability of the financial structure. Despite its higher interest rate than current borrowings, the Group will continue to maintain a considerable portion of long-term borrowings to achieve a better debt portfolio.

As at 31 December 2018 and 2017, the Group's financial ratios were as follows:

	2018	2017
Current ratio	**1.39**	1.20
Debt to equity ratio[1]	**1.06**	0.94
Net debt to equity ratio[2]	**0.88**	0.68

1 Based on total borrowings over equity attributable to shareholders

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

Borrowings

As at 31 December 2018, the Group's total bank borrowings amounted to RMB7,127.7 million, among which RMB1,860.1 million (26.1%) was denominated in Renminbi, RMB1,356.2 million (19.0%) was denominated in United States dollars ("US$" or "USD") and RMB3,911.4 million (54.9%) was denominated in Hong Kong dollars ("HK$" or "HKD"). These bank borrowings borne interest at rates ranging from 2.0% to 5.0% per annum (2017: 1.2% to 6.5%).

As at 31 December 2018, the Group has outstanding current bank borrowings of RMB2,252.5 million (2017: RMB2,562.4 million). Decrease in current bank borrowings was mainly due to the optimization of long-term and short-term debts to strengthen its financial security.

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

As at 31 December 2018, bank borrowings of RMB877.4 million (2017: RMB464.7 million) were secured by the pledge of the Group's property, plant and equipment with a net book amount of approximately RMB834.9 million (2017: RMB180.9 million), bills receivable with a net book amount of RMB97.5 million (2017: Nil) and bank deposits with a net book amount of RMB68.5 million (2017: Nil). No land use rights and inventory were secured as at 31 December 2018 (2017: RMB26.7 million and RMB261.2 million).

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, US$ and HK$. Foreign exchange risk may arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign exchange risk is mainly attributable to its borrowings and raw material procurement denominated in US$ or HK$. 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 purchase a suitable amount of currency option contracts and cross currency swap contracts. Other than bills payable in US$, the Group did not have exposure on foreign currency without protection of option contracts or cross currency swap contracts as at 31 December 2018. However, since the mark-to-market value of those financial derivative instruments are calculated based on forward exchange rate, this may not reflect the actual protection of those instruments on the risk of foreign exchange rate fluctuation.

Capital expenditure

For the year ended 31 December 2018, the capital expenditure of the Group amounted to RMB2,003 million (2017: RMB724 million). It was mainly comprised of the investments in fixed assets in Vietnam and the PRC.

Contingent liabilities

As at 31 December 2018, 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 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 Tianzhu 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. The 2015 Facility was fully repaid by the Company in January 2018.

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 2016 Facility Agreement.

Human resources

As at 31 December 2018, the Group had a total workforce of 38,076 employees (as at 31 December 2017: 38,024), of whom 18,211 employees were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 19,865 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Nicaragua, North America, Hong Kong and Macao. New employees were recruited to cater for the Group's business expansion during the year. The Group offers a competitive remuneration package to its employees. 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 creating a learning and sharing culture in the organization. Strong 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 skilled and motivated employees.

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 20 HK cents per share for the year ended 31 December 2018 to shareholders whose names appear on the register of member on 9 May 2019 and will be payable on or about 23 May 2019, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 26 April 2019. An interim dividend of 23 HK cents per share was paid by the Company on 24 September 2018.

Closure of register of members

The register of members of the Company will be closed from 19 April 2019 to 26 April 2019, 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 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, no later than 4:30 p.m. on 18 April 2019.

Conditional on the passing of the resolutions 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 7 May 2019 to 9 May 2019, 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 6 May 2019.

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

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 2018.

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 year of 2018 and up to the date of this announcement, 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 year of 2018 and up to the date of this announcement.

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 2018.

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 2018 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
7 March 2019

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