Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by 14.9% to RMB22.0 billion
- Gross profit margin decreased by 2.8 percentage point to 13.6%
- Net profit margin decreased by 1.9 percentage point to 4.2%
- Net profit decreased by 21.0% to RMB922.7 million
- Profit attributable to shareholders decreased by 24.0% to RMB883.7 million
- Earnings per share was RMB0.97

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 2019, together with the comparative figures for 2018.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

		Year ended 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Revenue	*2*	**22,002,943**	19,155,709
Cost of sales	*4*	**(19,009,506)**	(16,009,884)
Gross profit		**2,993,437**	3,145,825
Selling and distribution costs	*4*	**(847,204)**	(685,124)
General and administrative expenses	*4*	**(1,010,446)**	(721,025)
Net (accrual)/reversal of impairment losses on financial assets		**(3,638)**	553
Other income	*3*	**143,966**	214,198
Other gains/(losses) — net	*3*	**358,346**	(58,953)
Operating profit		**1,634,461**	1,895,474
Finance income	*5*	**28,467**	18,371
Finance costs	*5*	**(576,218)**	(511,863)
Finance costs — net	*5*	**(547,751)**	(493,492)
Share of profits less losses of investments accounted for using the equity method		**28,090**	21,918
Profit before income tax		**1,114,800**	1,423,900
Income tax expense	*6*	**(192,051)**	(255,957)
Profit for the year		**922,749**	1,167,943
Attributable to:			
Owners of the Company		**883,726**	1,163,092
Non-controlling interests		**39,023**	4,851
		922,749	1,167,943
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	*7*	**RMB0.97**	RMB1.27
— Diluted earnings per share	*7*	**RMB0.97**	RMB1.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Profit for the year	**922,749**	1,167,943
Other comprehensive income/(losses)		
Items that will not be reclassified subsequently to profit or loss		
Revaluation of buildings		
— gross	**210,988**	–
— deferred income tax	**(38,203)**	–
Items that may be reclassified subsequently to profit or loss		
Currency translation differences	**2,296**	5,180
Total comprehensive income for the year	**1,097,830**	1,173,123
Attributable to:		
Owners of the Company	**1,058,807**	1,168,272
Non-controlling interests	**39,023**	4,851
	1,097,830	1,173,123

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Note	**2019**	2018
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**170,005**	1,011,183
Property, plant and equipment		**9,445,725**	7,716,921
Right-of-use assets		**1,344,312**	–
Intangible assets		**67,067**	70,728
Investments accounted for using the equity method		**243,269**	204,707
Deferred income tax assets		**103,676**	96,391
Other non-current assets		**–**	236,102
		11,374,054	9,336,032
Current assets			
Inventories	*9*	**5,100,090**	5,211,292
Properties under development		**227,580**	226,058
Trade and bills receivables	*10*	**1,534,673**	1,783,774
Prepayments, deposits and other receivables		**798,492**	867,899
Derivative financial instruments	*12*	**287,435**	145,220
Pledged bank deposits		**21,478**	145,019
Cash and cash equivalents		**1,830,859**	1,054,721
		9,800,607	9,433,983
Total assets		**21,174,661**	18,770,015
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		**96,709**	96,709
Share premium		**433,777**	433,777
Other reserves		**905,019**	712,893
Retained earnings		**6,037,951**	5,495,258
		7,473,456	6,738,637
Non-controlling interests		**625,919**	98,185
Total equity		**8,099,375**	6,836,822

	Note	2019 RMB'000	2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**4,925,007**	4,875,187
Lease liabilities		**135,386**	–
Deferred income tax liabilities		**287,461**	161,690
Long-term payables		**144,212**	122,893
		5,492,066	5,159,770
Current liabilities			
Trade and bills payables	*11*	**3,035,868**	3,522,714
Contract liabilities		**133,027**	88,272
Accruals and other payables		**797,958**	727,219
Current income tax liabilities		**96,879**	70,077
Borrowings		**3,359,616**	2,252,547
Derivative financial instruments	*12*	**29,530**	89,468
Lease liabilities		**35,770**	–
Finance lease obligations		**–**	831
Long-term payables due within 1 year		**94,572**	22,295
		7,583,220	6,773,423
Total liabilities		**13,075,286**	11,933,193
Total equity and liabilities		**21,174,661**	18,770,015

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 2019 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 16 March 2020.

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 2019

A number of new standards, amendments and interpretation to existing standards became applicable for the financial year beginning on 1 January 2019 and the Group had to change its accounting policies as a result of adopting HKFRS 16 'Leases'. The other 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 16 'Leases'

The impact of the adoption of HKFRS 16 'Leases' is disclosed in Note 1.2 below.

(ii) HK (IFRIC) 23 'Uncertainty over Income Tax Treatments', explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty

- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored

- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment

- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(iii) Amendments to HKFRS 9 regarding prepayment features with negative compensation enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

(iv) Amendments to HKAS 28 regarding long-term interests in associates and joint ventures clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under HKFRS 9 'Financial Instruments' before applying the loss allocation and impairment requirements in HKAS 28 'Investments in Associates and Joint Ventures'.

(v) *Annual Improvements to HKFRS Standards 2015–2017 Cycle which were finalised in December 2017*

- HKFRS 3 'Business Combinations' — clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.

- HKFRS 11 'Joint Arrangements' — clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

- HKAS 12 'Disclosure of Interests in Other Entities' — clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

- HKAS 23 'Borrowing Costs' — clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(vi) Amendments to HKAS 19 regarding plan amendment, curtailment or settlement, clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change.

- recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling.

- separately recognise any changes in the asset ceiling through other comprehensive income.

(b) New standard and amendments of HKFRSs issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group

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

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

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

(iv) Revised Conceptual Framework for Financial Reporting, effective for annual periods beginning on or after 1 January 2020.

(v) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 regarding interbank offered rates (IBORs) reform and its effects on financial reporting, effective for annual periods beginning on or after 1 January 2020.

(vi) 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.

1.2 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 'Leases' on the Group's financial statements.

As indicated in Note 1.1 above, the Group has adopted HKFRS 16 'Leases' from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.67%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease assets of RMB17,409,000 and finance lease obligations of RMB831,000 immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

(i) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 'Leases' and HK (IFRIC) 4 'Determining whether an Arrangement contains a Lease'.

(ii) Measurement of right-of-use assets and lease liabilities

	2019
	RMB'000
Operating lease commitments (excluding leases relating to land use rights) disclosed as at 31 December 2018	**206,511**
Less:	
Short-term leases to be recognised on a straight-line basis as expenses	**(3,333)**
Low-value leases to be recognised on a straight-line basis as expenses	**(614)**
	202,564
Discounted using the lessee's incremental borrowing rate at the date of initial application, representing additional lease liabilities recognised as at 1 January 2019	**182,630**
Add:	
Reclassification of lease assets recorded under property, plant and equipment in relation to finance lease obligations	**17,409**
Reclassification of land use rights	**877,045**
Right-of-use assets recognised as at 1 January 2019	**1,077,084**

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(iii) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment — decrease by RMB17,409,000
- freehold land and land use rights — decrease by RMB877,045,000
- right-of-use assets — increase by RMB1,077,084,000
- finance lease obligations — decrease by RMB831,000
- lease liabilities (current portion) — increase by RMB34,309,000
- lease liabilities (non-current portion) — increase by RMB149,152,000

There was no impact on retained earnings on 1 January 2019.

2. REVENUE AND SEGMENTAL 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 ended 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, Turkey, Macao, Cambodia, Nicaragua and North America.

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 2019 is as follows:

	Year ended 31 December 2019														
	Yarns					Garment fabrics and Garments						Grey fabrics			Total
	Mainland China and Hong Kong *RMB'000*	Vietnam *RMB'000*	Turkey *RMB'000*	Macao *RMB'000*	North America *RMB'000*	Mainland China and Hong Kong *RMB'000*	Cambodia *RMB'000*	Vietnam *RMB'000*	Nicaragua *RMB'000*	Macao *RMB'000*	North America *RMB'000*	Mainland China and Hong Kong *RMB'000*	Vietnam *RMB'000*	Macao *RMB'000*	*RMB'000*
Total revenue	14,335,011	8,189,565	94,036	13,117,598	–	3,673,768	184,439	707,955	33,541	97,146	905,825	639,333	565,893	349,466	42,893,576
Inter-segment revenue	(592,220)	(7,570,760)	–	(10,858,938)	–	–	(184,102)	(619,376)	(33,541)	(93,694)	(93,806)	–	(565,666)	(278,530)	(20,890,633)
Revenue (from external customers)	13,742,791	618,805	94,036	2,258,660	–	3,673,768	337	88,579	–	3,452	812,019	639,333	227	70,936	22,002,943
Timing of revenue recognition — At a point in time	13,742,791	618,805	94,036	2,258,660	–	3,673,768	337	88,579	–	3,452	812,019	639,333	227	70,936	22,002,943
Segment results	344,435	357,937	(13,783)	241,340	(5,247)	372,025	(19,329)	4,690	(16,825)	(184)	6,799	43,863	16,378	12	1,332,111
Unallocated profits															302,350
Operating profit															1,634,461
Finance income															28,467
Finance costs															(576,218)
Share of profits less losses of investments accounted for using the equity method															28,090
Income tax expense															(192,051)
Profit for the year															922,749
Depreciation and amortisation	(387,070)	(312,126)	(5,285)	(605)	(467)	(79,910)	(19,998)	(47,974)	(8,866)	–	(13,229)	(15,786)	(31,375)	–	(922,691)

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	North America	Mainland China and Hong Kong	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 assets and liabilities as at 31 December 2019 are as follows:

	As at 31 December 2019															
	Yarn							Garment fabrics and Garments					Grey fabrics			Total
	Mainland China and Hong Kong	Vietnam	Macao	Turkey	Nicaragua	North America	Sub-total	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	North America	Mainland China and Hong Kong	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*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	8,966,179	4,535,545	514,326	379,097	298,211	89,134	14,782,492	3,602,748	138,041	652,219	197,420	335,438	322,746	786,312	8,437	20,825,853
Unallocated assets																348,808
Total assets of the Group																21,174,661
Total segment liabilities							(5,584,845)	(690,417)	(7,740)	(418,442)	(99,863)	(183,283)	(26,254)	(358,896)	–	(7,369,740)
Unallocated liabilities																(5,705,546)
Total liabilities of the Group																(13,075,286)
Addition to non-current assets	720,629	130,970	1,451	165,508	296,245	123,824	1,438,627	59,901	1,332	178,806	105,396	9,838	10,562	296,856	–	2,101,318

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	North America	Mainland China and Hong Kong	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)
Addition to non-current assets	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

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

	2019	2018
	RMB'000	*RMB'000*
Other income		
Subsidy income (a)	**143,966**	214,198
Other gains/(losses) — net		
Gains on acquisition of subsidiaries	**209,019**	–
Gains on disposal of subsidiaries	**18,581**	7,679
Gains on disposal of joint-ventures	**–**	200
Derivative financial instruments at fair value through profit or loss:		
— Realised losses	**(58,055)**	(3,601)
— Unrealised profits/(losses)	**202,653**	(12,992)
Net foreign exchange losses	**(21,194)**	(65,925)
Others	**7,342**	15,686
Total other profits/(losses) — net	**358,346**	(58,953)

(a) The subsidy income were mainly related to incentives for development in Xinjiang, Jiangsu, Shandong, Zhejiang 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

	2019	2018
	RMB'000	*RMB'000*
Raw materials and consumables used	**14,913,453**	13,068,997
Changes in inventories of finished goods and work in progress	**50,013**	(506,319)
Employment benefit expenses	**2,648,876**	2,193,451
Depreciation and amortisation	**922,691**	753,202
Losses on disposal of property, plant and equipment	**5,553**	2,618
Office expenses	**114,707**	99,190
Utilities	**1,327,009**	1,036,364
Transportation costs	**456,706**	386,939
Auditor's remuneration		
— Annual audit services	**3,850**	4,000
— Non-audit services	**416**	1,430
Rental expenses for buildings and machinery	**9,514**	62,038
Net accrual of provision for decline in the value of inventories	**8,957**	4,445
Other expenses	**405,411**	309,678
Total cost of sales, selling and distribution costs and general and administrative expenses	**20,867,156**	17,416,033

5. FINANCE INCOME AND COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest expenses		
— borrowings	**441,525**	346,813
— long term payable	**9,753**	–
— lease liabilities	**6,077**	–
— finance lease obligations	**–**	250
	457,355	347,063
Net exchange losses on financing activities	**118,863**	164,800
Finance costs	**576,218**	511,863
Finance income — interest income on bank deposits	**(28,467)**	(18,371)
Net finance costs	**547,751**	493,492

6. INCOME TAX EXPENSE

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

	2019	2018
	RMB'000	*RMB'000*
Current tax on profits for the year	**197,162**	262,064
Adjustment in respect of prior years	**(2,597)**	(13,317)
Deferred income tax	**(2,514)**	7,210
	192,051	255,957

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2018: 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 (2018: 25%).

As approved by the relevant tax bureau in Mainland China, four subsidiaries established in Jiangsu, one subsidiary established in Xinjiang and two subsidiaries established in Guangdong respectively are entitled to a preferential tax rate of 15% during the year (2018: one subsidiary established in Jiangsu, one subsidiary established in Xinjiang and two subsidiaries established in Guangdong respectively are entitled to a preferential tax rate at 15%). Such preferential tax treatments require annual assessment on meeting the stipulated conditions and re-application to maintain the lower tax rate status every few years.

(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% (2018: 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% (2018: 20%).

As approved by the relevant tax bureau in Vietnam, Texhong Yinlong Technology Ltd., Texhong Galaxy Technology Limited, Texhong Winnitex Vietnam Limited and Texhong United Technology Vietnam Company Limited established in Vietnam in 2014, 2016 and 2018, 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 (2018: 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% (2018: 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 (2018: nil).

The Company's subsidiary established in Uruguay is subject to income tax rate of 25% (2018: 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 (2018: nil).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 22% (2018: 22%). 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 (2018: nil).

The Company's subsidiary in Cambodia acquired in 2017 is subject to income tax at the rate of 20% (2018: 20%). No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from the subsidiary during the year (2018: nil).

The Company's subsidiaries in Nicaragua acquired and established in 2017 and 2018 respectively are subject to income tax at the rate of 30% (2018: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiaries are entitled to exemption from profits tax during the year (2018: exempted).

The Company's subsidiaries in Samoa acquired in 2017 are exempted from profits tax during the year (2018: exempted).

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

The Company's subsidiaries established in Mexico are subject to income tax at the rate of 30% (2018: 30%).

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.

	2019	2018
Profit attributable to owners of the Company *(RMB'000)*	**883,726**	1,163,092
Weighted average number of ordinary shares in issue *(thousands)*	**915,000**	915,000
Basic earnings per share *(RMB per share)*	**0.97**	1.27

(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.

	2019	2018
Profit attributable to owners of the Company *(RMB'000)*	**883,726**	1,163,092
Weighted average number of ordinary shares in issue *(thousands)*	**915,000**	915,000
Adjustments for:		
— Share options *(thousands)*	**714**	1,799
Weighted average number of ordinary shares for diluted earnings per share *(thousands)*	**915,714**	916,799
Diluted earnings per share *(RMB per share)*	**0.97**	1.27

8. DIVIDENDS

The dividend paid in 2019 were RMB307,166,000 (2018: RMB340,262,000), being HKD0.38 per ordinary share (2018: HKD0.44 per ordinary share).

	2019	2018
	RMB'000	*RMB'000*
Final dividend for the year ended 31 December 2018 of HKD0.20 (2017: HKD0.21) per ordinary share	**158,936**	156,160
Interim dividend for the year ended 31 December 2019 of HKD0.18 (2018: HKD0.23) per ordinary share	**148,230**	184,102
	307,166	340,262

A proposed final dividend in respect of the year ended 31 December 2019 of HKD0.15 (2018: HKD0.20) per ordinary share, amounting to a total dividend of RMB122,949,000 (2018: RMB160,345,000) is to be presented for approval at the annual general meeting of the Company on 8 May 2020. These financial statements do not reflect this as dividend payable.

	2019	2018
	RMB'000	*RMB'000*
Proposed final dividend for the year ended 31 December 2019 of HKD0.15 (2018: HKD0.20) per ordinary share	**122,949**	160,345

9. INVENTORIES

	2019	2018
	RMB'000	*RMB'000*
Raw materials	**3,189,503**	3,473,769
Work-in-progress	**481,381**	338,350
Finished goods	**1,429,206**	1,399,173
	5,100,090	5,211,292

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB14,913,453,000 (2018: RMB13,068,997,000).

In 2019, the Group made an inventory provision of approximately RMB8,957,000 (2018: RMB4,445,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

As at 31 December 2019, inventories with a total net book amount of RMB66,580,000 (2018: nil) were pledged as collateral for the Group's bank borrowings.

10. TRADE AND BILLS RECEIVABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade receivables	**817,743**	787,107
Less: provision for impairment	**(10,226)**	(6,588)
	807,517	780,519
Bills receivable	**727,156**	1,003,255
	1,534,673	1,783,774

As at 31 December 2019, no trade receivables was due from related parties (2018: RMB5,131,000).

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

As at 31 December 2019, no bills receivable was pledged as collateral for the Group's bank borrowings (2018: bills receivable with a total net book amount of RMB97,526,000 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 (including amounts due from related parties of trading in nature) based on invoice date is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 30 days	**1,050,742**	1,099,220
31 to 90 days	**399,113**	592,707
91 to 180 days	**75,479**	82,290
181 days to 1 year	**9,694**	11,414
Over 1 year	**9,871**	4,731
	1,544,899	1,790,362
Less: provision for impairment	**(10,226)**	(6,588)
Trade and bills receivables — net	**1,534,673**	1,783,774

11. TRADE AND BILLS PAYABLES

	2019 *RMB'000*	2018 *RMB'000*
Trade payables	**811,591**	693,210
Bills payable	**2,224,277**	2,829,504
	3,035,868	3,522,714

As at 31 December 2019, included in trade payables were amounts due to related parties of RMB13,975,000 (2018: RMB5,871,000).

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) based on invoice date is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Within 90 days	**2,235,897**	2,356,142
91 to 180 days	**781,214**	1,155,029
181 days to 1 year	**11,600**	8,003
Over 1 year	**7,157**	3,540
	3,035,868	3,522,714

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 *RMB'000*	2018 *RMB'000*
Assets:		
Forward foreign exchange contracts *(Note (a))*	**187,736**	125,609
Cross currency swap contracts *(Note (b))*	**87,942**	17,946
Cotton future contracts *(Note (c))*	**11,757**	1,665
	287,435	145,220
Liabilities:		
Forward foreign exchange contracts *(Note (a))*	**22,010**	18,562
Cross currency swap contracts *(Note (b))*	**7,520**	68,235
Cotton future contracts *(Note (c))*	**–**	2,671
	29,530	89,468

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

Notes:

(a) The forward foreign exchange contracts as at 31 December 2019 comprised nineteen contracts with notional principal amounts totalling RMB4,756,373,000 (2018: thirty-one contracts with notional principal amounts totalling RMB5,292,117,000).

(b) The cross currency swap contracts as at 31 December 2019 comprised fifty-one contracts with notional principal amounts totalling RMB9,658,644,000 (2018: twenty-six contracts with notional principal amounts totalling RMB4,622,139,000).

(c) The cotton future contract as at 31 December 2019 comprised five contracts with notional principal amount of USD35,583,000 (2018: eleven contracts with notional principal amounts totalling USD24,263,000).

CHAIRMAN'S STATEMENT

RESULTS

Since the Sino-US trade negotiation came to a standstill in May 2019, the US has threatened to impose additional tariffs on all Chinese-made goods and China has also taken retaliatory action to raise tariffs on US goods. Although the two parties finally orally confirmed the progress of the negotiation in December and signed the phase one agreement in January 2020, tariffs imposed by the US on some Chinese goods was still higher than that before May 2019, and there was no sign of reduction of tariffs before the conclusion of the second phase trade deal. Such actions of the US has had an adverse impact on the textile market in China in 2019. Confidence of brand operators and enterprises in the industrial chain were substantially eroded. Apart from those factories with exclusive product development that is hardly replaceable, almost every company in the textile industry in China experienced rapid declines in operating revenue and profits, or even suffered losses.

Amidst market adversity, the Group adjusted its product mix based on more than 20 years of industry experience in respond to changes in dynamic market demand, with the premise of maximizing capacity utilization, and effectively reduced inventories and ensured operating capacity of workers to avoid loss of skilled workers, under the vicious cycle of falling prices of raw materials and finished products. Despite a difficult operating environment and the commencement of operation of 1 million new spindles in the past two years, such strategy was still effective. Sales volume of yarns reached nearly 750,000 tonnes, which was more than 30,000 tonnes higher than the original target of 720,000 tonnes of 2019. Other business segments of the Group also recorded growth. The Group's turnover exceeded RMB20.0 billion and reached RMB22.0 billion, representing an increase of nearly 15% when compared with last year. Helped by the integration with Winnitex Holdings Limited and Zhejiang Qing Mao Weaving Dyeing Printing Co., Ltd. (collectively "Winnitex Group"), sales of woven dyed fabrics produced by the Group for the year exceeded 100 million metres, with revenue reaching RMB1.86 billion, which was a growth of 200% when compared with last year.

With the commitment of all staff members, the Group's operating revenue reached another record high since its establishment. However, affected by the Sino-US trade friction, the gross profit margin of yarns for the year fell sharply by 4.4 percentage points from 17.9% last year to 13.5%. While gross profit margin of other business segments effectively improved due to the Group's overseas layout and integration of industrial chain, yarn business still accounted for nearly 76% of the Group's total revenue, and therefore, the profit attributable to shareholders of the Group for 2019 was RMB884 million and the basic earnings per share was RMB0.97, representing a year-on-year decrease of 24%.

OUTLOOK

Looking back at the Sino-US trade disputes over the past year, even though China and the US had signed the phase one trade agreement, the outlook for international trade is still clouded by remaining uncertainties. Coupled with the plight brought about by the outbreak of Coronavirus disease 2019 (COVID-19) across the world in 2020, the global economy and consumer sentiment will certainly be affected, and the operating environment will remain difficult. In order to cope with the uncertainties caused by the Sino-US trade friction, the Group will continue to pursue internationalization as part of its business strategy and vertical integration of the industrial chain to build yarn production bases outside of China for direct access to overseas markets, and continue the construction of three-in-one textile production bases in Vietnam and Nicaragua. On the one hand, it will effectively reduce or alleviate the impact of Sino-U.S. trade friction, and on the other hand, through vertical integration of production of fabrics and even garments, it will improve the overall profit margin and profit stability, alleviating the impact of raw material price fluctuations.

In addition, the Group completed the reorganisation of the knitted fabric management team in 2019 to improve efficiency and strengthen business capabilities and make full use of domestic production capacity to increase sales revenue and profits of knitted fabrics in China, and has proceeded with the preparation work for the application for construction of a large-scale knitted dyed fabric production base in Vietnam. As for jeanswear business, the Group completed relevant business reorganisation in 2019 and had been focusing on the development of a profitable production base in Vietnam in order to improve the profitability of the jeanswear business.

After the rapid expansion in 2018 and 2019, the scale of production capacity of the Group has reached another level. In 2020, our capital expenditure is expected to be significantly reduced, we will focus on making full use of existing production capacity to increase profitability of the Group and the strategies of expansion of overseas production capacity and integration of the industrial chain, to enhance the profitability and financial stability of the Group, reduce the gearing ratio, and strengthen the security of operations under the unstable operating environment.

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 2019. During the year, the Group's revenue grew by 15% to RMB22.0 billion when compared with last year. Profit attributable to shareholders of the Company decreased by 24% to RMB884 million against last year. Basic earnings per share also decreased to RMB0.97 from RMB1.27 last year.

INDUSTRY REVIEW

According to statistics from the National Bureau of Statistics of the PRC, the aggregate sales achieved by sizeable textile enterprises amounted to RMB2,403.8 billion in 2019, representing a 1.8% decrease year-on-year, with profit totalling RMB100.9 billion, down by 10.9% year-on-year. Sizeable garment and apparel enterprises recorded total sales in the amount of RMB1,601.0 billion, representing a year-on-year decrease of 3.4%, with net profit at RMB87.28 billion, down by 9.8% year-on-year. In terms of production volume, in 2019, 28.92 million tonnes of yarn, 45.7 billion metres of fabrics and 59.53 million tonnes of synthetic fibre were produced. According to data from PRC Customs, in 2019, US$120.2 billion worth of textile products were exported from China, representing a year-on-year increase of 0.9% with the value of garments at US$151.4 billion, representing a year-on-year decrease of 4.0%.

According to statistics from Vietnam Customs, the export volume of yarn and staple fibre manufactured in Vietnam grew by 16.0% to 1.715 million tonnes in 2019, bringing in revenue of US$4,177 million, up 3.8% when compared with 2018. Garments exports increased by 7.8% to US$32.850 billion.

BUSINESS REVIEW

In 2019, operating revenue of the Group hit another record high at RMB22.0 billion, representing an increase of 15% when compared with last year, mainly attributable to the growth in sales of yarn and dyed fabrics. The Group derives sales revenue from the entire industrial chain, including sales of yarns, grey fabrics, dyed fabrics and garments. Revenue from sales of yarn continued to hit a record high at RMB16.7 billion, representing an increase of 7.5% when compared with last year. With the strong growth of midstream and downstream businesses, the proportion of yarn sales in total revenue declined from 81.2% last year to 76.0%. Midstream and downstream businesses recorded sales revenue of RMB5.3 billion in total, an increase of nearly 50% over 2018.

In the past two years, the Group expanded its yarn production by adding a total of approximately 1 million spindles. Although the market demand was affected by the Sino-US trade friction and the production capacity decreased as a result of a change in the product mix, total external sales of yarn for 2019 increased to nearly 750,000 tonnes, exceeding the original target of 720,000 tonnes. As the Group adjusted its product mix to prioritise capacity utilisation in times of market turmoil, the gross profit margin of yarn declined from 17.9% last year to 13.5% this year.

As for grey fabric, as expected at the beginning of 2019, with the development of the Group's own dyed fabric business, internal use of grey fabrics produced by the Group increased, while external sales volume decreased from approximately 96 million metres last year to nearly 80 million metres this year. In line with its annual target, and benefitting from the advantages of vertical integration, the sales of grey fabric produced overseas achieved relatively good results with the gross profit margin of grey fabrics increasing from 14.8% last year to 17.2% this year.

As for woven dyed fabric, the sales volume of products produced by the Group reached 100 million metres, more than double from the 42 million metres produced last year, which was mainly due to the integration of Winnitex Group's business. In the early stage of integration, orders at the factory in Vietnam were temporarily affected, but in the second half of the year orders have gradually returned to normal and with the expansion of production capacity, the monthly production capacity has surpassed the single-month output high of last year. As the sales volume of Winnitex Group has also been slightly affected by the Sino-US trade friction, the sales of self-produced woven dyed fabric of the Group were lower than the annual target of 120 million metres. In addition, the trading volume of woven fabrics also reached 38 million metres, representing an increase of more than 50% from 24 million metres last year. Following the introduction of Winnitex Group's management model and product development technology, the average gross profit margin of the Group's woven fabrics has reached a significant increase to 16.6% this year.

As for knitted dyed fabric, the reorganisation of the management team this year delivered its initial effect in the fourth quarter. Due to unsatisfactory production volume and gross profit margin in the first half of 2019, the annual sales volume of knitted dyed fabrics produced by the Group was approximately 17,000 tonnes, less than the target of 18,000 tonnes. The annual gross profit margin also decreased, but with the successful business reorganisation, the gross profit margin of knitted fabrics in the fourth quarter was higher than the average level of last year.

The jeanswear business underwent another reform in the second half of 2019. As a result, total sales volume was affected and failed to meet the full-year target, but still improved from last year. After the reform, the Group concentrated its operations on a production base with an established earning base in Vietnam, which will play a key role in improving the profitability of the business segment.

Influenced by the performance of the yarn business, the overall gross profit margin of the Group declined significantly from 16.4% in 2018 to 13.6% this year. Profit attributable to shareholders for the year was RMB884 million, and earnings per share were RMB0.97, both representing a decrease of approximately 24% when compared with last year. With the business growth of the midstream and downstream and the improvement of the profit level, the impact on the Group's performance by the fluctuation of profitability of yarn will be gradually reduced, helping to maintain the profit stability of the Group and improve overall profit.

PROSPECTS

As at the end of 2019, the Group's major production facilities were equipped with approximately 4 million spindles and more than 1,800 looms. Of all the spindles, 2.45 million were in the PRC and 1.47 million spindles were in Vietnam. After completion of the capacity expansion plans for 2018 and 2019, the Group will focus on making the best use of such capacity in 2020 in order to give play to its due role and efficiency, with an effort to restore the desirable yarn product mix, the increased production capacity of overseas production bases of woven dyed fabrics and the reorganisation of the knitted dyed fabrics business team, the profitability of the Group is expected to be improved in 2020 along with the total sales revenue recording remarkable growth.

At the same time, as capacity expansion was completed in the past two years, capital expenditure will also be significantly reduced in 2020 and is expected to be down below RMB800 million, which will, in turn, help to lower the debt ratio of the Group and strengthen its financial security under adverse operating conditions. Inferred from the current market conditions, excluding the sales volume of the trading business, the Group targets to sell 830,000 tonnes of yarn, 60 million metres of grey fabric, 140 million metres of woven dyed fabric, 25,000 tonnes of knitted dyed fabric and 14 million pairs of jeans in 2020.

On 12 July 2019, the Group was again named among the "Fortune 500 Chinese Companies 2019", and ranked third by the China Cotton Textile Association among cotton textile enterprises in terms of comprehensive competitiveness, a strong endorsement of its continuously expanding business and proven business model. The Group will continue to work tirelessly, exerting 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 the Group's 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 7.5% in 2019 as compared to that of 2018. Sales analyses of the Group by products are shown below.

	2019 *RMB'000*	2018 *RMB'000*	Revenue change
Stretchable core-spun yarns	**8,062,776**	7,993,929	0.9%
Other yarns	**8,651,516**	7,560,240	14.4%
Stretchable grey fabrics	**560,477**	649,110	–13.7%
Other grey fabrics	**150,019**	208,093	–27.9%
Woven garment fabrics	**2,694,451**	1,122,412	140.1%
Knitted garment fabrics	**900,225**	799,864	12.5%
Jeans	**983,479**	822,061	19.6%
Total	**22,002,943**	19,155,709	14.9%

	Sales volume		**Selling price**		**Gross profit margin**	
	2019	2018	**2019**	2018	**2019**	2018
Stretchable core-spun yarns (Tonne/RMB per tonne)	**351,061**	329,954	**22,967**	24,227	**14.8%**	18.6%
Other yarns (Tonne/RMB per tonne)	**398,157**	330,438	**21,729**	22,879	**12.3%**	17.2%
Stretchable grey fabrics (Million metres/RMB per metre)	**59.7**	69.9	**9.4**	9.3	**15.2%**	13.3%
Other grey fabrics (Million metres/ RMB per metre)	**19.5**	25.6	**7.7**	8.1	**24.6%**	19.7%
Woven garment fabrics (Million metres/RMB per metre)	**138.7**	66.4	**19.4**	16.9	**16.6%**	7.7%
Knitted Garment fabrics (Tonne/RMB per tonne)	**18,230**	16,753	**49,382**	47,745	**12.7%**	14.5%
Jeans (Million pairs/RMB per pair)	**17.0**	15.5	**57.9**	53.0	**5.4%**	3.7%

The Chinese textile market is the Group's major market, accounted for 68.7% of our total sales of 2019. The percentage of Group's exports has experienced noticeable growth due to acquisition of textile trading companies in North America in the second half of 2018, as well as integration of the original export operation of Winnitex Group in 2019.

As at the date of this announcement, the Group has more than 5,000 customers. As the Group produces differentiated products, the Group does not rely on orders from a particular customer. The ten largest customers of the Group only accounted for 14.2% of the total sales of the Group for the year ended 31 December 2019.

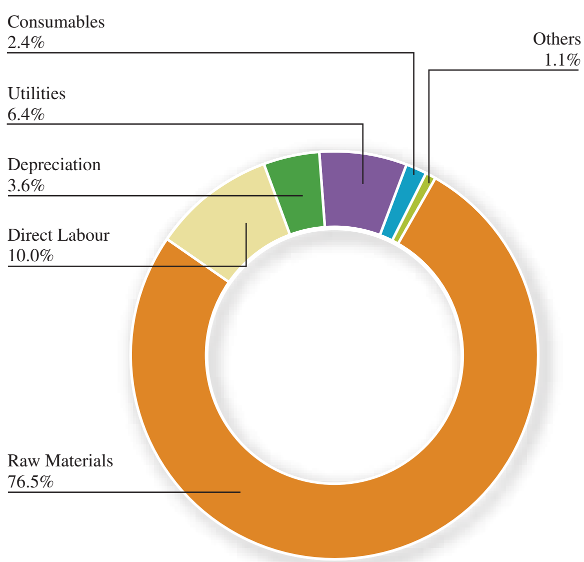
Gross profit and gross margin

For the year ended 31 December 2019, the gross profit of the Group decreased from RMB3.15 billion to RMB2.99 billion, representing a decrease of 4.8% as compared to that of 2018. The overall gross profit margin also decreased by 2.8 percentage point to 13.6% as compared to that of 2018. Although the gross profit margin of other business segments effectively improved due to the Group's overseas layout and integration of industrial chain, the gross profit margin of yarn business was affected by the Sino-US trade friction and thus fell sharply, leading to a decrease in the overall gross profit margin.

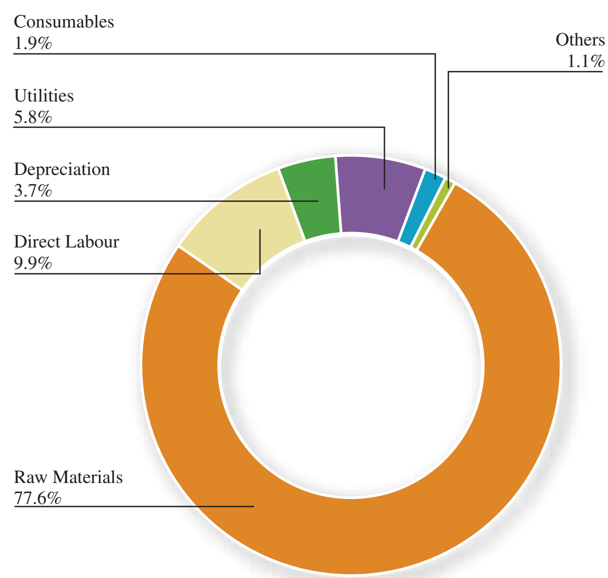
Cost structure

For the year ended 31 December 2019, the cost of sales increased by 18.7% to RMB19.0 billion when compared to that of 2018 following the growth of sales. Raw materials cost accounted for about 76.5% of the total cost of sales of 2019. Cotton is our major raw materials.

The breakdown of our cost of sales for the year ended 31 December 2018 and 2019 is shown below:



2019



2018

Selling and distribution costs

For the year ended 31 December 2019, the Group's selling and distribution costs amounted to RMB847.2 million, representing an increase of 23.7% when compared to that of 2018. The increase was attributable to the increase in transportation costs and salaries of sales personnel due to increase in sales volume and expenses of the newly acquired businesses.

General and administrative expenses

For the year ended 31 December 2019, the Group's general and administrative expenses increased by 40.1% to RMB1,010 million when compared to that of 2018, which represented 4.6% of the Group's sales. The increase was mainly due to the increase in research and development expenditures and expenses of the newly acquired businesses.

Cash flows

	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**2,418,356**	766,684
Net cash used in investing activities	**(1,939,288)**	(1,821,900)
Net cash generated from financing activities	**297,070**	643,219
Cash and cash equivalents at end of the year	**1,830,859**	1,054,721

For the year ended 31 December 2019, net cash generated from operating activities amounted to RMB2,418.4 million, which represents an significant increase comparing with 2018 mainly due to the higher cash outflow of raw material purchase for new production capacity in 2018. Net cash used in investing activities amounted to RMB1,939.3 million, which was mainly used for the payment of capital expenditures for capacity expansion and acquisitions. During the year under review, net cash generated from financing activities amounted to RMB297.1 million, which was mainly used in financing for working capital.

Liquidity and financial resources

As at 31 December 2019, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,852.3 million (as at 31 December 2018: RMB1,199.7 million). The Group's inventories decreased by RMB111.2 million to RMB5,100.1 million and our trade and bills receivables decreased by RMB249.1 million to RMB1,534.7 million (as at 31 December 2018: RMB5,211.3 million and RMB1,783.8 million respectively). The inventory turnover days and trade and bills receivables turnover days were 98 days and 27 days respectively, compared to 101 days and 32 days in 2018. The increase of raw material procurement for new production capacity in the second half of 2018 led to an increase in the average inventory in 2018 so the inventory turnover days in 2018 were higher.

Trade and bills payables of the Group decreased by RMB486.8 million to RMB3,035.9 million as at 31 December 2019 (as at 31 December 2018: RMB3,522.7 million), the payable turnover days was 62 days, compared to 73 days in 2018. Decrease in the payable turnover days was mainly due to early settlement of part of bills payable for purchase of raw materials in order to reduce the overall liability level.

The total bank borrowings of the Group increased by RMB1,156.9 million to RMB8,284.6 million as at 31 December 2019. Current bank borrowings increased by RMB1,107.1 million to RMB3,359.6 million while non-current bank borrowings increased by RMB49.82 million to RMB4,925.0 million. The increase in the proportion of current bank borrowings was mainly due to the financing for working capital for the Group's new production capacity. 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 2019 and 2018, the Group's financial ratios were as follows:

	2019	2018
Current ratio	**1.29**	1.39
Debt to equity ratio[1]	**1.11**	1.06
Net debt to equity ratio[2]	**0.86**	0.88

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 2019, the Group's total bank borrowings amounted to RMB8,284.6 million, among which RMB1,522.0 million (18.4%) was denominated in Renminbi, RMB1,329.1 million (16.0%) was denominated in United States dollars ("US$" or "USD") and RMB5,433.5 million (65.6%) was denominated in Hong Kong dollars ("HK$" or "HKD"). These bank borrowings borne interest rates ranging from 2.1% to 4.9% per annum (2018: 2.0% to 5.0%).

As at 31 December 2019, the Group has outstanding current bank borrowings of RMB3,359.6 million (2018: RMB2,252.5 million). Increase in current bank borrowings was mainly used for working capital for the Group's new production capacity.

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

As at 31 December 2019, bank borrowings of RMB520.8 million (2018: RMB877.4 million) were secured by the pledge of the Group's machinery and equipment with a net book amount of approximately RMB709.5 million (2018: RMB834.9 million), pledged bank deposits with a net book amount of RMB8.0 million (2018: RMB68.5 million) and inventories with a total amount of RMB66.58 million (2018: Nil). No bills receivable were secured as at 31 December 2019 (2018: RMB97.5 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 depreciation risk of RMB, the Group has purchased a suitable amount of currency option contracts and currency swap contracts so that the currency exposure is hedged against. As at 31 December 2019, there was no unhedged foreign currency debt exposure. The Group will continue to enter into the relevant currency option and swap option contracts so that the currency exposure arising from borrowings denominated in foreign currencies can be minimized.

Capital expenditure

For the year ended 31 December 2019, the capital expenditure of the Group amounted to RMB2,101 million (2018: RMB2,003 million). It was mainly comprised of the investments in fixed assets in the PRC, Vietnam, Americas and Turkey.

Gain on acquisition of subsidiaries

For the year ended 31 December 2019, the Group recorded a gain on the acquisition of subsidiaries of approximately RMB209.0 million in relation to the acquisition of Winnitex Group which the completion took place in April 2019. Please refer to the announcement of the Company dated 10 December 2018 for further details.

Contingent liabilities

As at 31 December 2019, 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 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 2019, the Group had a total workforce of 41,108 employees (as at 31 December 2018: 38,076), of whom 21,682 employees were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 19,426 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Turkey, 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 organisation. 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 15 HK cents per share for the year ended 31 December 2019 to shareholders whose names appear on the register of members on 19 May 2020 and will be payable on or about 2 June 2020, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 8 May 2020. An interim dividend of 18 HK cents per share was paid by the Company on 11 October 2019.

Closure of register of members

The register of members of the Company will be closed from 5 May 2020 to 8 May 2020, 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 4 May 2020.

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 15 May 2020 to 19 May 2020, 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 14 May 2020.

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 2019.

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 2019 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 2019 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 2019.

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 remuneration policy and structure 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 2019 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
16 March 2020

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