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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 2020

FINANCIAL HIGHLIGHTS

- Revenue decreased by 11.0% to RMB19.6 billion
- Gross profit margin increased by 0.2 percentage point to 13.8%
- Net profit margin decreased by 1.5 percentage point to 2.7%
- Net profit decreased by 42.5% to RMB530.4 million
- Profit attributable to shareholders decreased by 41.5% to RMB517.1 million
- Basic earnings per share was RMB0.57

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 2020, together with the comparative figures for 2019.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	2	19,576,938	22,002,943
Cost of sales	4	(16,869,820)	(19,009,506)
Gross profit		2,707,118	2,993,437
Selling and distribution costs	4	(752,298)	(847,204)
General and administrative expenses	4	(1,034,040)	(1,010,446)
Net accrual of impairment losses on financial assets		(4,851)	(3,638)
Other income	3	179,106	143,966
Other (losses)/gains — net	3	(239,384)	358,346
Operating profit		855,651	1,634,461
Finance income	5	50,774	28,467
Finance costs	5	(270,689)	(576,218)
Finance costs — net	5	(219,915)	(547,751)
Share of profits less losses of investments accounted for using the equity method		45,124	28,090
Profit before income tax		680,860	1,114,800
Income tax expense	6	(150,506)	(192,051)
Profit for the year		530,354	922,749
Attributable to:			
Owners of the Company		517,065	883,726
Non-controlling interests		13,289	39,023
		530,354	922,749
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	7	RMB0.57	RMB0.97
— Diluted earnings per share	7	RMB0.56	RMB0.97

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Year ended 31 December	
	2020	2019
Note	RMB'000	RMB'000
Profit for the year	530,354	922,749
Other comprehensive (losses)/income		
<i>Item that will not be reclassified subsequently to profit or loss</i>		
Revaluation of buildings		
— gross	—	210,988
— deferred income tax	—	(38,203)
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>(2,023)</u>	<u>2,296</u>
Total comprehensive income for the year	<u>528,331</u>	<u>1,097,830</u>
Attributable to:		
Owners of the Company	515,042	1,058,807
Non-controlling interests	<u>13,289</u>	<u>39,023</u>
	<u>528,331</u>	<u>1,097,830</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Freehold land		167,794	170,005
Property, plant and equipment		8,894,136	9,445,725
Right-of-use assets		1,324,417	1,344,312
Intangible assets		63,406	67,067
Investments accounted for using the equity method		290,075	243,269
Deferred income tax assets		89,712	103,676
		10,829,540	11,374,054
Current assets			
Inventories	9	3,795,718	5,100,090
Properties under development		228,680	227,580
Trade and bills receivables	10	1,735,593	1,534,673
Prepayments, deposits and other receivables		512,358	798,492
Derivative financial instruments	12	111,167	287,435
Pledged bank deposits		260,610	21,478
Cash and cash equivalents		2,683,613	1,830,859
		9,327,739	9,800,607
Total assets		20,157,279	21,174,661
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		96,709	96,709
Share premium		433,777	433,777
Other reserves		942,310	905,019
Retained earnings		6,390,471	6,037,951
		7,863,267	7,473,456
Non-controlling interests		609,471	625,919
Total equity		8,472,738	8,099,375

		2020	2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		3,225,622	4,925,007
Lease liabilities		125,229	135,386
Deferred income tax liabilities		292,659	287,461
Long-term payables		29,871	144,212
		<u>3,673,381</u>	<u>5,492,066</u>
Current liabilities			
Trade and bills payables	11	2,652,659	3,035,868
Contract liabilities		220,143	133,027
Accruals and other payables		811,632	797,958
Current income tax liabilities		69,984	96,879
Borrowings		3,837,481	3,359,616
Derivative financial instruments	12	234,704	29,530
Lease liabilities		60,516	35,770
Long-term payables due within 1 year		124,041	94,572
		<u>8,011,160</u>	<u>7,583,220</u>
Total liabilities		<u>11,684,541</u>	<u>13,075,286</u>
Total equity and liabilities		<u>20,157,279</u>	<u>21,174,661</u>

NOTES:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

Texhong Textile Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and sales of yarn, grey fabrics, non-woven 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 2020 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 12 March 2021.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies 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). 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 judgment in the process of applying the Group’s accounting policies.

1.1 Changes in accounting policies and disclosures

(a) Amendments to HKFRSs adopted by the Group in 2020

A number of amendments to existing standards became applicable for the current reporting period. These amendments to existing standards did not give rise to any significant impact on the Group’s financial statements. These amendments are set out below:

(i) Amendments to HKAS 1 and HKAS 8 regarding definition of material

The HKICPA has made amendments to HKAS 1 ‘Presentation of Financial Statements’ and HKAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’ which use a consistent definition of materiality throughout Hong Kong Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in HKAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and
- the meaning of ‘primary users of general purpose financial statements’ to whom those financial statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

(ii) *Amendments to HKFRS 3 regarding definition of a business*

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

(iii) *Revised Conceptual Framework for Financial Reporting*

The HKICPA has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards.

(iv) *Amendments to HKFRS 7, HKFRS 9 and HKAS 39 regarding interest rate benchmark reform*

The amendments made to HKFRS 7 ‘Financial Instruments: Disclosures’, HKFRS 9 ‘Financial Instruments’ and HKAS 39 ‘Financial Instruments: Recognition and Measurement’ provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving Inter Bank Offered Rate based contracts, the reliefs will affect companies in all industries.

(v) *Amendments to HKFRS 16 regarding Covid-19-related rent concessions*

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the HKICPA made an amendment to HKFRS 16 ‘Leases’ which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

This amendment is effective on 1 June 2020.

(b) *New standards and amendments of HKFRSs issued but are not effective for the financial year beginning on 1 January 2020 and have not been early adopted by the Group*

- (i) Amendments to HKAS 1 regarding classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2022 (possibly deferred to 1 January 2023).
- (ii) Amendments to HKAS 16 regarding property, plant and equipment, proceeds before intended use, effective for annual periods beginning on or after 1 January 2022.
- (iii) Amendments to HKAS 37 regarding onerous contracts — cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022.
- (iv) Amendments to HKFRS 3 regarding reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022.
- (v) HKFRS 17 ‘Insurance Contracts’, effective for annual periods beginning on or after 1 January 2023.
- (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.
- (vii) Annual Improvements to HKFRS Standards 2018–2020, effective for annual periods beginning on or after 1 January 2022.

2. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics, non-woven fabrics and garment fabrics as well as garments. Revenues recognised for the period 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, non-woven fabrics and garment fabrics as well as garments.

Due to the continuous improvement of the regional integration process, the Group shows homogeneity of operation and management in the same geographical area. As a consequence, the Committee of Executive Directors integrated the segment information in the same area.

The scope of the operating segments has been modified following the changes in management responsibilities as from 1 January 2020. China now includes Mainland China, Hong Kong and Macao. Southeast Asia now includes Vietnam and Cambodia. Americas now includes United States, Mexico and Nicaragua.

2019 comparative information has been restated.

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 2020 is as follows:

	Year ended 31 December 2020											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	China RMB'000	Southeast Asia RMB'000	Americas RMB'000	Others RMB'000	China RMB'000	Southeast Asia RMB'000	Americas RMB'000	China RMB'000	Southeast Asia RMB'000	China RMB'000	Southeast Asia RMB'000	RMB'000
Total revenue	19,694,736	7,044,903	19,535	172,314	3,090,115	678,469	756,862	625,724	381,558	56,105	60,010	32,580,331
Inter-segment revenue	(5,185,193)	(6,524,519)	(19,535)	–	(106,159)	(528,971)	(74,128)	(129,806)	(380,675)	–	(54,407)	(13,003,393)
Revenue (from external customers)	14,509,543	520,384	–	172,314	2,983,956	149,498	682,734	495,918	883	56,105	5,603	19,576,938
Timing of revenue recognition												
— At a point in time	14,509,543	520,384	–	172,314	2,983,956	149,498	682,734	495,918	883	56,105	5,603	19,576,938
Segment results	435,296	385,254	(17,908)	(20,432)	129,222	47,627	(14,070)	9,048	9,715	944	12,598	977,294
Unallocated losses												(121,643)
Operating profit												855,651
Finance income												50,774
Finance costs												(270,689)
Share of profits less losses of investments accounted for using the equity method												45,124
Income tax expense												(150,506)
Profit for the period												530,354
Depreciation and amortisation	(447,376)	(332,851)	(832)	(15,533)	(103,770)	(44,592)	(21,873)	(7,685)	(23,477)	–	(5,681)	(1,003,670)

The segment information for the year ended 31 December 2019 is restated as follows:

	Year ended 31 December 2019 (Restated)									
	Yarns				Garment fabrics and Garments			Grey fabrics		Total
	China	Southeast Asia	Americas	Others	China	Southeast Asia	Americas	China	Southeast Asia	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total revenue	21,583,366	8,189,565	–	94,036	3,770,914	892,394	939,366	988,799	565,893	37,024,333
Inter-segment revenue	(5,581,915)	(7,570,760)	–	–	(93,694)	(803,478)	(127,347)	(278,530)	(565,666)	(15,021,390)
Revenue (from external customers)	<u>16,001,451</u>	<u>618,805</u>	<u>–</u>	<u>94,036</u>	<u>3,677,220</u>	<u>88,916</u>	<u>812,019</u>	<u>710,269</u>	<u>227</u>	<u>22,002,943</u>
Timing of revenue recognition										
— At a point in time	<u>16,001,451</u>	<u>618,805</u>	<u>–</u>	<u>94,036</u>	<u>3,677,220</u>	<u>88,916</u>	<u>812,019</u>	<u>710,269</u>	<u>227</u>	<u>22,002,943</u>
Segment results	585,775	357,937	(5,247)	(13,783)	371,841	(14,639)	(10,026)	43,875	16,378	1,332,111
Unallocated profits										<u>302,350</u>
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										<u>(192,051)</u>
Profit for the period										<u>922,749</u>
Depreciation and amortisation	<u>(387,675)</u>	<u>(312,126)</u>	<u>(467)</u>	<u>(5,285)</u>	<u>(79,910)</u>	<u>(67,972)</u>	<u>(22,095)</u>	<u>(15,786)</u>	<u>(31,375)</u>	<u>(922,691)</u>

The segment assets and liabilities as at 31 December 2020 are as follows:

	As at 31 December 2020										
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics	Total
	China	Southeast Asia	Americas	Others	China	Southeast Asia	Americas	China	Southeast Asia	China	Southeast Asia
	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	9,309,102	4,156,144	397,829	396,007	3,206,076	986,656	615,563	174,788	271,633	10,884	578,669
Unallocated assets											
Total assets of the Group											<u>20,157,279</u>
Total segment liabilities	(3,668,124)	(2,369,948)	(336,565)	(365,684)	(736,773)	(816,676)	(396,447)	(59,681)	(257,611)	(422)	(425,143)
Unallocated liabilities											
Total liabilities of the Group											<u>(11,684,541)</u>
Addition to non-current assets	<u>115,379</u>	<u>32,815</u>	<u>32,026</u>	<u>14,349</u>	<u>103,838</u>	<u>71,667</u>	<u>48,509</u>	<u>171</u>	<u>–</u>	<u>–</u>	<u>121,041</u>

The segment assets and liabilities as at 31 December 2019 are restated as follows:

	As at 31 December 2019 (Restated)									
	Yarns				Garment fabrics and Garments			Grey fabrics		Total
	China	Southeast Asia	Americas	Others	China	Southeast Asia	Americas	China	Southeast Asia	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment assets	9,480,505	4,535,545	387,345	379,097	3,602,748	790,260	532,858	331,183	786,312	20,825,853
Unallocated assets										348,808
Total assets of the Group										21,174,661
Total segment liabilities	(4,088,377)	(1,153,862)	(236,327)	(106,279)	(690,417)	(426,182)	(283,146)	(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	722,080	130,970	420,069	165,508	59,901	180,138	115,234	10,562	296,856	2,101,318

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

	2020 RMB'000	2019 RMB'000
Other income		
Subsidy income (a)	179,106	143,966
Other (losses)/gains — net		
Gains on acquisition of subsidiaries	—	209,019
Gains on disposal of subsidiaries	—	18,581
Derivative financial instruments at fair value through profit or loss:		
— Realised gains/(losses)	70,822	(58,055)
— Unrealised (losses)/gains	(381,443)	202,653
Net foreign exchange gains/(losses)	56,106	(21,194)
Others	15,131	7,342
Total other (losses)/gains — net	(239,384)	358,346

- (a) The subsidy income was mainly related to incentives for development in 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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials and consumables used	12,495,164	14,913,453
Changes in inventories of finished goods and work in progress	410,298	50,013
Employment benefit expenses	2,372,271	2,648,876
Depreciation and amortisation	1,003,670	922,691
Impairment charges on property, plant and equipment	16,863	—
Losses on disposal of property, plant and equipment	7,289	5,553
Office expenses	82,420	114,707
Utilities	1,255,052	1,327,009
Transportation costs	413,773	456,706
Auditor's remuneration		
— Annual audit services	3,725	3,850
— Non-audit services	893	416
Rental expenses for buildings and machinery	2,714	9,514
Net accrual of provision for decline in the value of inventories	70,287	8,957
Other expenses	521,739	405,411
	<u>18,656,158</u>	<u>20,867,156</u>
Total cost of sales, selling and distribution costs and general and administrative expenses		

5. FINANCE COSTS — NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses		
— borrowings	353,604	441,525
— long term payables	11,121	9,753
— lease liabilities	6,215	6,077
	<u>370,940</u>	<u>457,355</u>
Net exchange (gains)/losses on financing activities	(100,251)	118,863
	<u>270,689</u>	<u>576,218</u>
Finance costs		
Finance income — interest income on bank deposits	(50,774)	(28,467)
	<u>219,915</u>	<u>547,751</u>
Net finance costs		

6. INCOME TAX EXPENSE

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

	2020 RMB'000	2019 RMB'000
Current tax on profits for the year	131,344	194,565
Deferred income tax	19,162	(2,514)
	<u>150,506</u>	<u>192,051</u>

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2019:16.5%).

(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 (2019: 25%).

As approved by the relevant tax bureau in Mainland China, eleven subsidiaries are entitled to a preferential tax rate of 15% during the year (2019: seven subsidiaries are entitled to a preferential tax rate of 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, one subsidiary established in Vietnam 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 further 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% (2019: 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% (2019: 20%).

As approved by the relevant tax bureau in Vietnam, other subsidiaries established in Vietnam 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 (2019: 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% (2019: 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 (2019: nil).

The Company's subsidiary established in Uruguay is subject to income tax rate of 25% (2019: 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 (2019: nil).

The Company's subsidiary established in Cambodia is subject to income tax at the rate of 20% (2019: 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 (2019: nil).

The Company's subsidiaries established in Nicaragua are subject to income tax at the rate of 30% (2019: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiaries are entitled to exemption from profits tax during the year (2019: exempted).

The Company's subsidiaries established in Samoa are exempted from profits tax during the year (2019: exempted).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 22% (2019: 22%).

The Company's subsidiaries established in the United States are subject to income tax rate within the range from 27.5% to 30% during the year (2019: 27.5% to 30%).

The Company's subsidiaries established in Mexico are subject to income tax at the rate of 30% (2019: 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.

	2020	2019
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>517,065</u>	<u>883,726</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>915,000</u>	<u>915,000</u>
Basic earnings per share (<i>RMB per share</i>)	<u>0.57</u>	<u>0.97</u>

(b) Diluted

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

	2020	2019
Profit attributable to owners of the Company (<i>RMB'000</i>)	<u>517,065</u>	<u>883,726</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	915,000	915,000
Adjustments for:		
— Share options (<i>thousands</i>)	<u>189</u>	<u>714</u>
Weighted average number of ordinary shares for diluted earnings per share (<i>thousands</i>)	<u>915,189</u>	<u>915,714</u>
Diluted earnings per share (<i>RMB per share</i>)	<u>0.56</u>	<u>0.97</u>

8. DIVIDENDS

The dividends paid in 2020 were RMB125,364,000 (2019: RMB307,166,000), being HKD0.15 per ordinary share (2019: HKD0.38 per ordinary share).

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend for the year ended 31 December 2019 of HKD0.15 (2018: HKD0.20) per ordinary share	125,364	158,936
Interim dividend for the year ended 31 December 2020 (2019: HKD0.18 per ordinary share)	<u>—</u>	<u>148,230</u>
	<u>125,364</u>	<u>307,166</u>

A proposed final dividend in respect of the year ended 31 December 2020 of HKD0.20 (2019: HKD0.15) per ordinary share, amounting to a total dividend of RMB154,013,000 (2019: RMB122,949,000) is to be presented for approval at the annual general meeting of the Company on 3 May 2021. These financial statements do not reflect this as dividend payable.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Proposed final dividend for the year ended 31 December 2020 of HKD0.20 (2019: HKD0.15) per ordinary share	<u>154,013</u>	<u>122,949</u>

9. INVENTORIES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Raw materials	2,344,703	3,189,503
Work-in-progress	446,589	481,381
Finished goods	<u>1,004,426</u>	<u>1,429,206</u>
	<u>3,795,718</u>	<u>5,100,090</u>

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB12,905,462,000 (2019: RMB14,963,466,000).

In 2020, the Group made an inventory provision of approximately RMB70,287,000 (2019: RMB8,957,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

As at 31 December 2020, no inventories (2019: a total net book amount of RMB66,580,000) were pledged as collateral for the Group's bank borrowings.

10. TRADE AND BILLS RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	881,453	817,743
Less: provision for impairment	<u>(15,077)</u>	<u>(10,226)</u>
	<u>866,376</u>	<u>807,517</u>
Bills receivable	<u>869,217</u>	<u>727,156</u>
	<u>1,735,593</u>	<u>1,534,673</u>

As at 31 December 2020, included in the trade receivables were amounts due from related parties of RMB123,000 (2019: nil).

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

As at 31 December 2020, bills receivable with a total net book amount of RMB160,000,000 were pledged as collateral for the Group's bank borrowings (2019: nil).

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:

	2020 RMB'000	2019 <i>RMB'000</i>
Within 30 days	1,101,062	1,050,742
31 to 90 days	448,412	399,113
91 to 180 days	168,690	75,479
181 days to 1 year	17,985	9,694
Over 1 year	14,521	9,871
	1,750,670	1,544,899
Less: provision for impairment	(15,077)	(10,226)
Trade and bills receivables — net	1,735,593	1,534,673

11. TRADE AND BILLS PAYABLES

	2020 RMB'000	2019 <i>RMB'000</i>
Trade payables	784,824	811,591
Bills payable	1,867,835	2,224,277
	2,652,659	3,035,868

As at 31 December 2020, included in trade payables were amounts due to related parties of RMB8,568,000 (2019: RMB13,975,000).

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:

	2020 RMB'000	2019 <i>RMB'000</i>
Within 90 days	2,121,441	2,235,897
91 to 180 days	485,176	781,214
181 days to 1 year	30,951	11,600
Over 1 year	15,091	7,157
	2,652,659	3,035,868

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Assets:		
Forward foreign exchange contracts (<i>Note (a)</i>)	62,690	187,736
Cotton option contract (<i>Note (d)</i>)	27,332	–
Cross currency swap contracts (<i>Note (b)</i>)	21,145	87,942
Cotton future contracts (<i>Note (c)</i>)	–	11,757
	<u>111,167</u>	<u>287,435</u>
Liabilities:		
Cross currency swap contracts (<i>Note (b)</i>)	232,634	7,520
Cotton option contract (<i>Note (d)</i>)	2,001	–
Forward foreign exchange contracts (<i>Note (a)</i>)	69	22,010
	<u>234,704</u>	<u>29,530</u>

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

Notes:

- (a) The forward foreign exchange contracts as at 31 December 2020 comprised thirty-eight contracts with notional principal amounts totalling RMB2,306,552,000 (2019: nineteen contracts with notional principal amounts totalling RMB4,756,373,000).
- (b) The cross currency swap contracts as at 31 December 2020 comprised twenty-one contracts with notional principal amounts totalling RMB3,543,954,000 (2019: fifty-one contracts with notional principal amounts totalling RMB9,658,644,000).
- (c) There is no cotton future contract as at 31 December 2020 (2019: five contracts with notional principal amount of USD35,583,000).
- (d) The cotton option contract as at 31 December 2020 comprised five contracts with notional principal amount of USD45,823,000 (2019: nil).

CHAIRMAN'S STATEMENT

RESULTS

In 2020, the sudden outbreak of the COVID-19 pandemic had an unprecedented and systemic impact on the global economy. The textile industry of China, not yet recovered from the impact of the Sino-US trade conflict, suddenly had to face tremendous challenges, and battling these obstacles became a matter of survival for many companies. The pandemic directly affected the normal operation of production facilities. Even when work and production was resumed, many companies still faced various difficulties and problems, such as the resumption of industrial chain upstream and downstream work not being synchronized, insufficient orders from customers, insufficient supplies of raw materials and lack of protective resources for COVID-19. After the effective control of the pandemic in China, the rapid deterioration of the epidemic situation in various overseas countries has once again brought the textile industry's export market to a standstill and a large number of orders have had to be suspended as a result.

At the beginning of the year, the Group adjusted its organizational structure by establishing a yarn business center and an industrial chain business center, which are responsible for the Group's yarn-related business and downstream business, including garment fabrics and garments, respectively. Following the outbreak of the pandemic, the Group has made great efforts to stabilize production and operations and had adjusted its strategies regarding product mix and operations based on the principle of "guarantee employment, guarantee opening, guarantee cash flow". The Group has also greatly strengthened capital management, which resulted in the effective digestion of large amounts of inventory, and achieved the best level of cash flow and debt ratio seen in recent years. In addition, the raw material price in 2020 experienced sharp ups and downs, which had a great impact on the gross profit margin of yarns, but the gradual rebound of cotton price in the second half of the year drove the growth in sales volume and gross profit margin of yarns. During the year ended 31 December 2020, the sales volume of yarns for the year amounted to more than 750,000 tonnes, representing a slight rise compared with last year. However, due to the exceptional operating environment during the year, the gross profit margin of yarn still dropped slightly from 13.5% last year to 13.4%. Although the downstream business segment was also severely affected by the pandemic situation overseas, its overall profitability still showed an improvement as compared to last year after the reforms and the acquisition made in 2019. The Group's total revenue reached RMB19.6 billion, representing a decrease of approximately 11% from last year. Profit attributable to shareholders of the Group for 2020 was RMB517 million and basic earnings per share was RMB0.57.

OUTLOOK

The COVID-19 pandemic has rung alarm bells for the global supply chain system, forcing companies to reconsider the pressure tolerance of manufacturing systems facing the global risk. Since 2015, the Group has adhered to the development strategy of vertical integration of the industrial chain, encountering many difficulties in the process. However, such a strategic process has enabled us to gain a new perception and understanding of the textile industrial chain, which has enabled us to look outside the box as raw material suppliers and have a macro perspective of the entire industrial chain. In the future, we will further leverage our strategic advantages and strengthen our internal operation management system in order to become better prepared for the ever-changing market.

In terms of business, despite the difficulties over the past year, we have further improved our plan and development in respect of downstream business. Both the knitted garment fabrics business and the woven garment fabrics business have expansion plans developed during the year, which are currently in the process of being implemented. It is expected that the Group's production capacity of knitted garment fabrics will reach 100 tons per day in 2021. The knitted garment fabrics business has been able to achieve a decent level of profitability despite the adverse market condition, and there is a great possibility for future business growth. Meanwhile, in order to promote more sustainable textile production, the Group has conducted in-depth research on relevant environmental protection technologies and equipment, and has planned to apply them in the production of woven garment fabrics and garments to establish a technology-oriented product line to drive the growth of profit.

Following the Group's investment and construction of recent years, the production capacity and layout of each of its business lines have been improved. Going forward, it is expected that the capital expenditure will be gradually reduced, with a focus on improving internal operations and financial quality of the Group, so as to further reduce the gearing ratio and achieve a more stable and low-risk profit growth.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is pleased to present its annual results for the year ended 31 December 2020 (the “Year”) to its shareholders. During the Year, the Group’s revenue dropped by 11% to approximately RMB19.6 billion when compared with last year. Profit attributable to shareholders of the Company decreased by 41.5% to approximately RMB517 million against last year. Basic earnings per share also decreased to RMB0.57 from RMB0.97 last year.

INDUSTRY REVIEW

According to statistics from the PRC’s National Bureau of Statistics, the aggregate sales achieved by sizeable textile enterprises amounted to RMB2,277.8 billion in 2020, representing a 6.7% decrease year-on-year, with profit totaling RMB110.5 billion, up by 7.9% year-on-year. Sizeable garment and apparel enterprises recorded total sales of RMB1,369.7 billion, representing a year-on-year decrease of 11.3%, with net profit at RMB64.04 billion, down by 21.3% year-on-year. According to data from the General Administration of Customs of the PRC, in 2020, textile products total worth of US\$153.8 billion were exported from China, representing a year-on-year increase of 29.2%, with the value of garments at US\$137.4 billion, representing a year-on-year decrease of 6.4%.

According to statistics from Vietnam Customs, the export volume of yarn and staple fiber manufactured in Vietnam grew by 1.4% to 1.738 million tonnes in 2020, bringing in revenue of US\$3,737 million, down by 10.5% when compared with 2019. The garment exports decreased by 9.3% to US\$29.81 billion in 2020.

BUSINESS REVIEW

Against the backdrop of the global outbreak of COVID-19, which affected the economy and people’s lives around the world, the Group’s revenue in 2020 decreased by 11% to RMB19.6 billion as compared with last year, better than the expected decrease of 20% for the Year as set out in the interim report for the six months ended 30 June 2020, mainly due to the recovery of the textile market in the fourth quarter in 2020, especially for the PRC market. During the year ended 31 December 2020, the Group mainly derived revenue from the sales of yarns, grey fabrics, garment fabrics and garments, which covered the entire industrial chain. Revenue from the sale of yarns remained the primary source of the Group’s revenue, accounting for approximately 77.7% of total revenue for the Year. Revenue from the sale of yarn for the Year amounted to approximately RMB15.2 billion, representing a decrease of 9.0% when compared with last year, due to the decrease in selling prices of yarns in the first half of the year. In respect of midstream and downstream business, under the impact of the global pandemic on end-user consumption (particularly for the regions outside of China), the Group achieved sales revenue of RMB4.37 billion, representing a decrease of 17.3% compared with 2019.

In 2019, the market demand of the textile products was seriously affected by the Sino-US trade friction, although there was a slight improvement in the market at the end of 2019. However, in late March 2020, due to the impact of the global outbreak of COVID-19, production capacity of the Group decreased as a result of a change in the product mix. Consequently, the production facilities of the Group equipped with approximately 4 million spindles did not operate effectively. Nevertheless, the Group's staff overcame the difficulties, seized the opportunities arising from the recovery of the textile market in China in the fourth quarter, strived to sell its inventories in full swing, and changed the product mix in order to gradually return to an ideal condition. The total external sales of yarn remained at a similar level to the 750,000 tonnes seen last year, with a slight year-on-year increase of approximately 2,000 tonnes. As the Group adjusted its product mix to prioritize capacity utilization in times of market turmoil, the gross profit margin of yarn continued to be affected. However, the recovery in the fourth quarter partially offset the impact of weak demand in the first half of the year. As a result, the gross profit margin of yarn for the Year only decreased by 0.1 percentage point to 13.4% compared with the corresponding period of the previous year.

As for grey fabrics, following the development of the Group's own garment fabrics business, internal use of grey fabrics produced by the Group increased, while the external sales volume decreased from approximately 79 million meters last year to nearly 66 million meters this year. The gross profit margin of grey fabrics decreased from 17.2% in 2019 to 12.9% in 2020.

As for woven garment fabrics, under the pressure of the impact of the pandemic on both sales orders and production volume, the sales volume of self-produced products decreased from approximately 100 million meters last year to approximately 88 million meters this year. The Group's woven garment fabrics business was more significantly affected by the global pandemic than its other businesses, which was mainly due to its target customers being outside of the PRC and, to a lesser extent, employees of different enterprises around the world being encouraged to work from home under the pandemic, which had a substantial impact on the demand for woven fabrics apparel. The trading volume of the Group's woven garment fabrics was also affected and the sales volume decreased by approximately 16% from approximately 38 million meters last year to approximately 32 million meters. Despite such a difficult operating environment, the gross profit margin of the Group's self-produced woven garment fabrics was maintained at around 19.5% for the Year.

The situation faced by knitted garment fabrics and woven garment fabrics are different. Given that different enterprises around the world are encouraging employees to work from home, the impact on the demand for knitted fabrics apparel is relatively low. It is also the Group's first business segment to recover during the pandemic. The sales volume of self-produced knitted garment fabrics for the Year was approximately 16,000 tonnes, representing a decrease of only approximately 1,000 tonnes as compared with last year. Following the successful business restructuring, the gross profit margin of self-produced knitted garment fabrics has reached 18% for the Year.

After the reform in second half of 2019, the jeanswear business was concentrated on production bases in Vietnam and Shandong, China, which are factories with an established earning base, thus the gross profit margin of self-produced jeanswear increased significantly to approximately 9.4% compared with last year. In addition, the non-woven fabrics business is still in its early stages and the products are mainly used in the production of tissue paper products. In 2020, the Group launched the first non-woven fabrics production line. With the other three invested production lines set to be launched gradually in 2021 in order to reduce the average production cost, the gross profit margin is expected to increase simultaneously.

Despite the severe impact of the global pandemic, the Group in turn recorded an increase of 0.2 percentage point of overall gross profit margin to 13.8% as compared with last year under the impact of Sino-US trade friction. With an average gross profit margin of 11.4% in the first half of 2020, there was clearly a recovering in the second half of the year, mainly driven by the recovery of the textile apparel market and the rebound of the raw material price in the fourth quarter of 2020. With the exception of the woven garment fabrics business, which may not return to normal levels until the second quarter of 2021, the Group's other business segments had largely resumed relatively normal operations by the end of 2020. The profit attributable to shareholders for the Year was RMB517 million, and basic earnings per share was RMB0.57, both representing a decrease of approximately 41% when compared with last year. As our business in the midstream and downstream is under development, in order to maintain business growth while increasing profitability, and the gross profit margin of woven and knitted garment fabrics has gradually increased which have potential to exceed the gross profit margin of yarn sales, we believe that the stability of the Group's profit and the overall profit level will continue to increase.

PROSPECTS

As at 31 December of 2020, the Group's major production facilities comprise 4.10 million spindles, 1,900 weaving and knitting machines and the related dyeing equipment. Of the spindles, 2.51 million were in the PRC and 1.59 million spindles were in overseas regions. After recovering from the business impact of the pandemic, the Group will continue to focus on making the best use of existing capacity in 2021 and to ensure optimal efficiency. With the recovery of the original yarn product mix, the commencement of expansion of the overseas production base for woven garment fabrics and the gradual revenue contributions from the knitted garment fabrics arising from the original production base in China and new production capacity in Vietnam, and assuming that the global pandemic gradually come to an end, the Sino-US trade relationship does not deteriorate further, and there are no other black swan events affecting the global economy, the Group's profitability is expected to improve significantly in 2021, and total sales revenue is expected to see remarkable growth.

The Group's main project in progress is the construction of a new production base for knitted garment fabrics in Vietnam. In addition, the Group also intends to increase automation in its existing yarn production base in order to reduce human resources. It is expected that the Group's business will recover significantly in 2021. Inferred from the current market conditions, excluding the sales volume of the trading business, the Group is aiming to sell 840,000 tonnes of yarn, 60 million meters of grey fabrics, 140 million meters of woven garment fabrics, 30,000 tonnes of knitted garment fabrics and 11 million pieces of jeanswear in 2021.

On 27 July 2020, the Group was once again named among the "Fortune 500 Chinese Companies 2020", and was also 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 and exert every effort to bring long-term and sustainable returns to its shareholders.

FINANCIAL REVIEW

Sales

During the Year, the sales of the Group mainly comprises the sales of yarns, grey fabrics, non-woven fabrics and garment fabrics, as well as jeanswear. Yarns continued to be the Group's major product. With the decrease of selling prices of yarns in the first half of the year, the sales of yarns decreased by about 9.0% in 2020 as compared to that of 2019. Sales analyses of the Group by products are shown below.

	2020 RMB'000		2019 RMB'000		Revenue change	
Stretchable core-spun yarns	6,463,724		8,062,776		-19.8%	
Other yarns	8,738,517		8,651,516		1.0%	
Stretchable grey fabrics	323,177		560,477		-42.3%	
Other grey fabrics	173,624		150,019		15.7%	
Woven garment fabrics	2,332,003		2,694,451		-13.5%	
Knitted garment fabrics	803,873		900,225		-10.7%	
Jeanswear	680,312		983,479		-30.8%	
Non-woven fabrics	61,708		—		—	
Total	19,576,938		22,002,943		-11.0%	

	Sales volume		Selling price		Gross profit margin	
	2020	2019	2020	2019	2020	2019
Stretchable core-spun yarns (Tonne/RMB per tonne)	305,026	351,061	21,191	22,967	16.8%	14.8%
Other yarns (Tonne/RMB per tonne)	446,349	398,157	19,578	21,729	10.8%	12.3%
Stretchable grey fabrics (Million metres/RMB per metre)	38.1	59.7	8.5	9.4	12.0%	15.2%
Other grey fabrics (Million metres/RMB per metre)	27.9	19.5	6.2	7.7	14.6%	24.6%
Woven garment fabrics (Million metres/RMB per metre)	120.4	138.7	19.4	19.4	16.5%	16.6%
Knitted Garment fabrics (Tonne/RMB per tonne)	17,541	18,230	45,828	49,382	17.7%	12.7%
Jeanswear (Million pieces/ RMB per piece)	10.3	17.0	66.0	57.9	12.2%	5.4%
Non-woven fabrics (Tonne/ RMB per tonne)	3,441	—	17,933	—	3.3%	—

The Chinese textile market is the Group's major market, accounted for 70.4% of our total sales of 2020. The percentage of Group's exports has experienced a decrease as compared to 2019 due to the impact of global pandemic in 2020.

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 12.8% of the total sales of the Group for the year ended 31 December 2020.

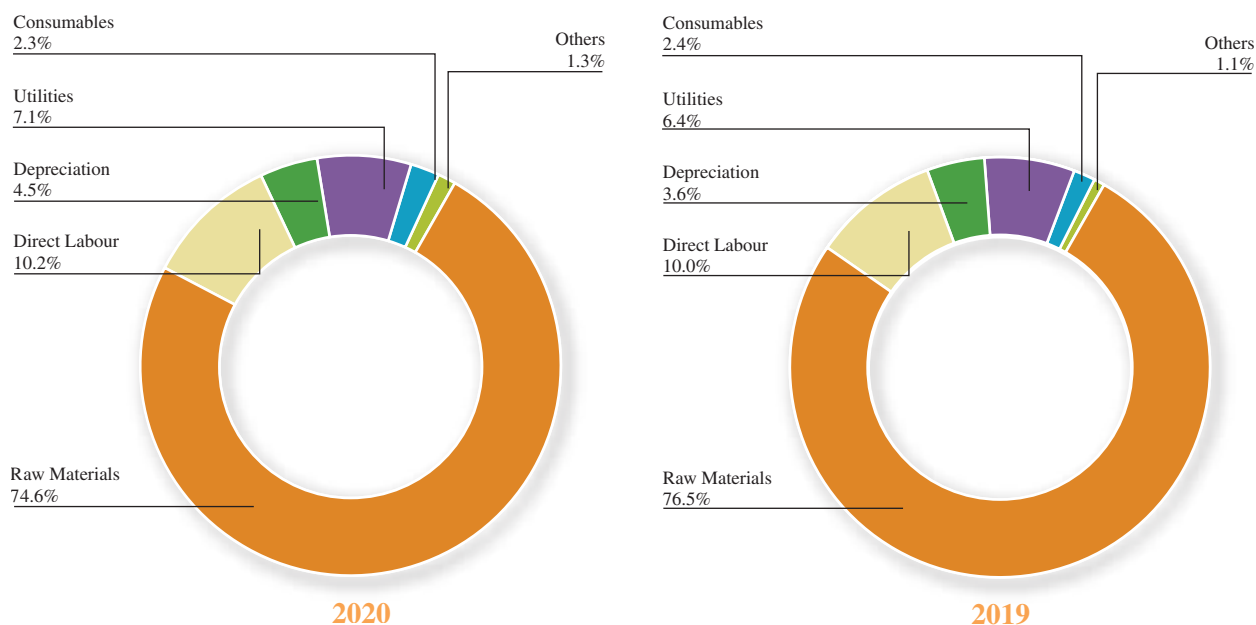
Gross profit and gross margin

For the year ended 31 December 2020, gross profit of the Group decreased from RMB2.99 billion to RMB2.71 billion, representing a decrease of 9.6% as compared to that of 2019. The overall gross profit margin increased by 0.2 percentage point to 13.8% as compared to that of 2019. Driven by the recovery of the textile and garment market and the rebound of the raw material price in the fourth quarter of 2020, the average gross profit margin in the second half of 2020 has rebounded from the bottom as compared to 11.4% in the first half of 2020.

Cost structure

For the year ended 31 December 2020, cost of sales dropped by 11.3% to RMB16.9 billion due to the decrease in sales. Raw materials cost accounted for about 74.6% of the total cost of sales of 2020. Cotton is our major raw material.

The breakdown of our cost of sales in 2019 and 2020 is shown below:



Selling and distribution costs

For the year ended 31 December 2020, the Group's selling and distribution costs amounted to RMB752.3 million, representing a decrease of 11.2% when compared to that of 2019. It was mainly due to the decrease in overall sales revenue and sales volume of grey fabrics and garment fabrics, which led to the decrease in salaries of sales personnel and transportation and storage costs.

General and administrative expenses

For the year ended 31 December 2020, the Group's general and administrative expenses amounted to RMB1,034 million, which represented an increase of 2.3% when compared with 2019, and accounted for 5.3% of the Group's revenue. The increase was mainly due to a business acquired by the Group during 2019, the general expenses of which were consolidated into the Group for the entire 2020 fiscal year.

Cash flows

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	3,300,785	2,418,356
Net cash used in investing activities	(577,713)	(1,939,288)
Net cash (used in)/generated from financing activities	(1,870,318)	297,070
Cash and cash equivalents at end of the year	<u>2,683,613</u>	<u>1,830,859</u>

For the year ended 31 December 2020, net cash generated from operating activities of the Group amounted to RMB3,300.8 million, which represents a significant increase comparing with 2019 mainly due to the improvement in working capital management and relatively low level of receivables and inventories maintained by the Group to cope with the severe market environment in 2020. Net cash used in investing activities amounted to RMB577.7 million, which was mainly used for the payment of expenditures for yarn, garment fabrics and non-woven fabrics projects under construction in Mainland China and overseas production bases in Vietnam and Americas. During the Year, net cash used in financing activities amounted to RMB1,870.3 million, which was mainly due to early partial repayment of bank borrowings by the Group due to the improved operating environment in the second half of 2020.

Liquidity and financial resources

As at 31 December 2020, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB2,944.2 million (as at 31 December 2019: RMB1,852.3 million). The Group's inventories decreased by RMB1,304.4 million to RMB3,795.7 million and our trade and bills receivables increased by RMB200.9 million to RMB1,735.6 million as at 31 December 2020 (as at 31 December 2019: RMB5,100.1 million and RMB1,534.7 million respectively). The inventory turnover days and trade and bills receivables turnover days were 95 days and 30 days respectively, compared to 98 days and 27 days in 2019. The inventory turnover days were lower, mainly due to the market recovery in the fourth quarter of 2020 and remarkable increase in sales of the Group, resulting in a lower inventory level at the end of the year. The turnover days of trade and bills receivables were slightly higher than the level of last year, mainly due to the slowdown in the collection of receivables from some overseas customers as a result of the outbreak of COVID-19.

Trade and bills payables of the Group decreased by RMB383.2 million to RMB2,652.7 million as at 31 December 2020 (as at 31 December 2019: RMB3,035.9 million), the payable turnover days was 61 days, compared to 62 days in 2019. The payable turnover days was nearly the same as last year.

The total bank borrowings of the Group decreased by RMB1,221.5 million to RMB7,063.1 million as at 31 December 2020. Current bank borrowings increased by RMB477.9 million to RMB3,837.5 million while non-current bank borrowings decreased by RMB1,699.4 million to RMB3,225.6 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. In the fourth quarter of 2020, the operating environment improved, and the Group repaid some non-current bank borrowings in advance, which reduced the overall liability level of the Group.

As at 31 December 2020 and 2019, the key financial ratios of the Group were as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current ratio	1.16	1.29
Debt to equity ratio ¹	0.90	1.11
Net debt to equity ratio ²	0.52	0.86

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 2020, the Group's total bank borrowings amounted to RMB7,063.1 million, among which RMB1,846.3 million (26.1%) was denominated in Renminbi, RMB1,873.8 million (26.5%) was denominated in United States dollars ("US\$" or "USD") and RMB3,343.0 million (47.4%) was denominated in Hong Kong dollars ("HK\$" or "HKD"). These bank borrowings borne interest rates ranging from 1.0% to 5.1% per annum (2019: 2.1% to 4.9%).

As at 31 December 2020, the Group has outstanding current bank borrowings of RMB3,837.5 million (2019: RMB3,359.6 million). The 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 2020, bank borrowings of RMB353.6 million (as at 31 December 2019: 520.8 million) were secured by bills receivable with a net book amount of RMB160 million (as at 31 December 2019: nil) and bank deposits with a net book amount of RMB200 million (as at 31 December 2019: 8.00 million), and none were secured by machinery equipment and inventories (As at 31 December 2019: the machinery and equipment with a net book amount of RMB709.5 million and inventories with a total amount of RMB66.58 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 certain amount of currency option contracts and currency swap contracts so that a significant portion of currency exposure is hedged against.

Capital expenditure

For the year ended 31 December 2020, the capital expenditure of the Group amounted to RMB539.8 million (2019: RMB2,101 million). It mainly related to the production capacity of yarns, garment fabrics and non-woven fabrics under construction in China, Vietnam, Americas and Turkey during the period under review.

Contingent liabilities

As at 31 December 2020, 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 2020, the Group had a total workforce of 38,545 employees (as at 31 December 2019: 41,108), of whom 19,707 employees were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 18,838 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Turkey, Nicaragua, North America, Hong Kong of China and Macao of China. The Group will continue to optimize its human resources structure and offer a competitive remuneration package to its employees. As the Group's success is dependent on the contribution of a group of skillful and motivated employees who form functional departments, the Group is committed to creating a learning and sharing culture in the organization, placing strong emphasis on the training and development of individual staff and team building.

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 2020 to shareholders whose names appear on the register of members on 12 May 2021 and will be payable on or about 27 May 2021, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 3 May 2021. No interim dividend was declared by the Company during the year of 2020.

Closure of register of members

The register of members of the Company will be closed from 28 April 2021 to 3 May 2021, 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 27 April 2021.

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 10 May 2021 to 12 May 2021, 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 7 May 2021.

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 2020.

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 ended 31 December 2020 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 ended 31 December 2020 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 2020.

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 2020 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
12 March 2021

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