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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)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

- Revenue increased by 52.5% to RMB12.5 billion
- Gross profit margin increased by 11.4 percentage points to 22.8%
- Net profit margin increased by 10.4 percentage points to 10.6%
- Profit attributable to equity holders increased to RMB1,288 million
- Basic earnings per share for the period increased to RMB1.41
- The Board declared for the payment of an interim dividend of 50 HK cents per share

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2021	2020
	Note	RMB'000	RMB'000
Revenue	2	12,526,280	8,214,436
Cost of sales	4	(9,673,739)	(7,277,373)
Gross profit		2,852,541	937,063
Selling and distribution costs	4	(466,766)	(337,144)
General and administrative expenses	4	(686,746)	(510,832)
Net accrual of impairment losses on financial assets		(13,466)	(1,384)
Other income	3	62,219	91,908
Other (losses)/gains, net	3	(80,023)	136,999
Operating profit		1,667,759	316,610
Finance income	5	18,872	25,650
Finance costs	5	(40,807)	(349,221)
Finance costs — net		(21,935)	(323,571)
Share of profits less losses of investments accounted for using the equity method		(14,791)	29,507
Profit before income tax		1,631,033	22,546
Income tax expense	6	(309,169)	(4,126)
Profit for the period		1,321,864	18,420
Attributable to:			
Owners of the Company		1,287,620	10,475
Non-controlling interests		34,244	7,945
		1,321,864	18,420
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	7	RMB1.41	RMB0.01
— Diluted earnings per share	7	RMB1.40	RMB0.01

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
	Note		
ASSETS			
Non-current assets			
Freehold land		166,225	167,794
Property, plant and equipment		9,005,116	8,894,136
Right-of-use assets		1,269,749	1,324,417
Intangible assets		61,575	63,406
Investments accounted for using the equity method		275,284	290,075
Deferred income tax assets		85,044	89,712
		<u>10,862,993</u>	<u>10,829,540</u>
Current assets			
Inventories	9	4,849,619	3,795,718
Properties under development		229,135	228,680
Trade and bills receivables	10	2,052,124	1,735,593
Prepayments, deposits and other receivables		897,675	512,358
Derivative financial instruments	12	85,441	111,167
Pledged bank deposits		360,259	260,610
Cash and cash equivalents		2,925,856	2,683,613
		<u>11,400,109</u>	<u>9,327,739</u>
Total assets		<u><u>22,263,102</u></u>	<u><u>20,157,279</u></u>
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		96,875	96,709
Share premium		455,303	433,777
Other reserves		942,720	942,310
Retained earnings		7,521,888	6,390,471
		<u>9,016,786</u>	<u>7,863,267</u>
Non-controlling interests		<u>643,715</u>	<u>609,471</u>
Total equity		<u><u>9,660,501</u></u>	<u><u>8,472,738</u></u>

		Unaudited	Audited
		30 June	31 December
		2021	2020
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		3,107,493	3,225,622
Lease liabilities		96,783	125,229
Deferred income tax liabilities		297,105	292,659
Long-term payables		3,215	29,871
		3,504,596	3,673,381
Current liabilities			
Trade and bills payables	11	4,623,489	2,652,659
Contract liabilities		190,478	220,143
Accruals and other payables		742,930	811,632
Current income tax liabilities		175,941	69,984
Borrowings		2,977,551	3,837,481
Derivative financial instruments	12	219,616	234,704
Lease liabilities		51,604	60,516
Long-term payables due within 1 year		116,396	124,041
		9,098,005	8,011,160
Total liabilities		12,602,601	11,684,541
Total equity and liabilities		22,263,102	20,157,279

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.

This condensed consolidated financial statements are presented in Chinese Renminbi (“RMB”), unless otherwise stated.

This condensed consolidated financial statements have been approved and authorised for issue by the board (“Board”) of directors (“Directors”) of the Company on 23 August 2021.

This condensed consolidated financial statements have not been audited.

This condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with HKAS 34, ‘Interim Financial Reporting’. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2020, which have been prepared in accordance with HKFRSs.

The accounting policies applied for the preparation of the condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new standards, amendments and interpretation of HKFRSs effective for the financial year ending 31 December 2021.

(a) New amendments and interpretation of HKFRSs adopted by the Group

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

- (i) Interest rate benchmark reform — Phase 2 — amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16

(b) The following new standard and amendments of HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group:

- (i) Amendments to HKAS 16 regarding property, plant and equipment, proceeds before intended use, effective for annual periods beginning on or after 1 January 2022.
- (ii) Amendments to HKAS 37 regarding onerous contracts — cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022.
- (iii) Amendments to HKFRS 3 regarding reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022.
- (iv) HKFRS 17 ‘Insurance Contracts’, effective for annual periods beginning on or after 1 January 2023.
- (v) Amendments to HKAS 1 regarding classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2023.
- (vi) Amendments to HKAS 1 and HKFRS Practice Statement 2 regarding disclosure of accounting policies, effective for annual periods beginning on or after 1 January 2023.
- (vii) Amendments to HKAS 8 regarding definition of accounting estimates, effective for annual periods beginning on or after 1 January 2023.
- (viii) Amendments to HKAS 12 regarding deferred tax related to assets and liabilities arising from a single transaction, effective for annual periods beginning on or after 1 January 2023.
- (ix) 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.
- (x) Annual Improvements to HKFRS Standards 2018–2020, effective for annual periods beginning on or after 1 January 2022.

2. REVENUE AND SEGMENT 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. Revenue recognised for the period 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. The operations are further evaluated on a geographic basis including China, Southeast Asia, America and others.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

The segment information for the six months ended 30 June 2021 is as follows:

	Unaudited											
	Six months ended 30 June 2021											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	China	Southeast			China	Southeast		China	Southeast	China	Southeast	
	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	12,871,848	4,422,828	37,373	209,511	1,957,260	377,237	568,662	373,273	248,691	37,936	45,031	21,149,650
Inter-segment revenue	(3,731,964)	(3,897,100)	(37,373)	–	(71,552)	(339,328)	(103,923)	(154,138)	(247,368)	–	(40,624)	(8,623,370)
Revenue (from external customers)	9,139,884	525,728	–	209,511	1,885,708	37,909	464,739	219,135	1,323	37,936	4,407	12,526,280
Timing of revenue recognition												
— At a point in time	9,139,884	525,728	–	209,511	1,885,708	37,909	464,739	219,135	1,323	37,936	4,407	12,526,280
Segment results	613,905	851,237	(16,455)	44,753	176,368	9,485	17,222	42,711	8,776	1,280	8,256	1,757,538
Unallocated losses												(89,779)
Operating profit												1,667,759
Finance income												18,872
Finance costs												(40,807)
Share of profits less losses of investments												
— accounted for using the equity method												(14,791)
Income tax expense												(309,169)
Profit for the period												1,321,864
Depreciation and amortisation	(235,475)	(147,892)	(475)	(8,359)	(56,297)	(25,324)	(15,597)	(3,962)	(11,864)	–	(9,912)	(515,157)

The segment information for the six months ended 30 June 2020 is as follows:

	Unaudited											
	Six months ended 30 June 2020											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	China	Southeast	America	Others	China	Southeast	America	China	Southeast	China	Southeast	
	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	8,873,546	3,347,677	6,632	54,696	1,426,527	312,367	343,791	338,877	169,501	10,524	15,575	14,899,713
Inter-segment revenue	(2,891,045)	(3,146,234)	(6,632)	–	(41,750)	(254,445)	(24,433)	(141,119)	(169,190)	–	(10,429)	(6,685,277)
Revenue (from external customers)	5,982,501	201,443	–	54,696	1,384,777	57,922	319,358	197,758	311	10,524	5,146	8,214,436
Timing of revenue recognition												
— At a point in time	5,982,501	201,443	–	54,696	1,384,777	57,922	319,358	197,758	311	10,524	5,146	8,214,436
Segment results	103,797	108,164	(12,202)	(11,389)	61,222	(2,628)	(29,483)	(1,892)	1,961	151	(10,633)	207,068
Unallocated profits												109,542
Operating profit												316,610
Finance income												25,650
Finance costs												(349,221)
Share of profits less losses of investments												
— accounted for using the equity method												29,507
Income tax expense												(4,126)
Profit for the period												18,420
Depreciation and amortisation	(220,179)	(162,934)	(574)	(8,219)	(49,341)	(26,488)	(10,619)	(3,002)	(13,564)	–	(2,808)	(497,728)

The segment assets and liabilities as at 30 June 2021 are as follows:

	Unaudited											
	As at 30 June 2021											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	China	Southeast Asia	America	Others	China	Southeast Asia	America	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	RMB'000
Total segment assets	9,455,207	5,140,225	549,512	492,305	3,664,478	1,054,352	643,664	230,966	321,897	18,556	608,148	22,179,310
Unallocated assets												83,792
Total assets of the Group												22,263,102
Total segment liabilities	(4,899,251)	(2,604,230)	(486,365)	(428,220)	(885,922)	(749,484)	(405,298)	(84,041)	(285,675)	(130)	(463,183)	(11,291,799)
Unallocated liabilities												(1,310,802)
Total liabilities of the Group												(12,602,601)
Addition to non-current assets	119,690	239,463	164,826	4,696	74,961	53,347	17,222	765	36	–	2,336	677,342

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

	Audited											
	As at 31 December 2020											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	China	Southeast Asia	America	Others	China	Southeast Asia	America	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	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	20,103,351
Unallocated assets												53,928
Total assets of the Group												20,157,279
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)	(9,433,074)
Unallocated liabilities												(2,251,467)
Total liabilities of the Group												(11,684,541)
Addition to non-current assets	115,379	32,815	32,026	14,349	103,838	71,667	48,509	171	–	–	121,041	539,795

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

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Other income		
Subsidy income (a)	<u>62,219</u>	<u>91,908</u>
Other (losses)/gains		
Derivative financial instruments at fair value through profit or loss:		
— Realised (losses)/profits	(44,560)	49,848
— Unrealised (losses)/profits	(10,638)	62,843
Net foreign exchange (losses)/gains	(45,601)	20,300
Others	<u>20,776</u>	<u>4,008</u>
Total other (losses)/gains — net	<u>(80,023)</u>	<u>136,999</u>

- (a) The subsidy income represented grants provided by municipal governments based on the amounts of value added tax and income tax paid. The Group has received all the subsidy income in the same period and there was no future obligation related to the subsidy income.

4. EXPENSES BY NATURE

The following expenses items have been included in cost of sales, selling and distribution costs and general and administrative expenses in the condensed consolidated income statement.

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Cost of inventories	7,630,710	5,152,345
Employment benefit expenses	1,379,940	1,172,242
Utilities	709,813	576,063
Depreciation and amortisation	515,157	497,728
Transportation	<u>261,698</u>	<u>211,398</u>

5. FINANCE INCOME AND COSTS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest expenses		
— borrowings	97,401	216,338
— lease liabilities	2,961	3,851
	<u>100,362</u>	<u>220,189</u>
Net exchange (gains)/losses on financing activities	(59,555)	129,032
	<u>40,807</u>	<u>349,221</u>
Finance costs		
Finance income — interest income on bank deposits	(18,872)	(25,650)
Net finance costs	<u>21,935</u>	<u>323,571</u>

6. INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax on profits for the period	300,055	32,435
Deferred income tax	9,114	(28,309)
	<u>309,169</u>	<u>4,126</u>

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2020: 16.5%).

(ii) 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% (2020: 25%).

As approved by the relevant tax bureau in Mainland China, eleven subsidiaries are entitled to a preferential tax rate of 15% during the period (2020: eleven subsidiaries are entitled to a preferential tax rate of 15%).

(iii) 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 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%. 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%.

As approved by the relevant tax bureau in Vietnam, other subsidiaries 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 period (2020: nil to 20%).

(iv) 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% (2020: 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 period (2020: nil).

The Company's subsidiary established in Uruguay is subject to income tax rate of 25% (2020: 25%). No provision for Uruguay profits tax has been made as the Group had no assessable profit arising in or derived from Uruguay during the period (2020: nil).

The Company's subsidiary established in Cambodia is subject to income tax at the rate of 20% (2020: 20%). No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from Cambodia during the period (2020: nil).

The Company's subsidiaries established in Nicaragua are subject to income tax at the rate of 30% (2020: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiary is entitled to exemption from profits tax during the period (2020: exempted).

The Company's subsidiaries established in Samoa are exempted from profits tax during the period (2020: exempted).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 22% (2020: 22%).

The Company's subsidiaries acquired in the United States are subject to income tax rate within the range from 27.5% to 30% (2020: 27.5% to 30%).

The Company's subsidiaries established in Mexico are subject to income tax at the rate of 30% (2020: 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 period.

	Unaudited Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company (RMB'000)	<u>1,287,620</u>	<u>10,475</u>
Weighted average number of ordinary shares in issue (thousands)	<u>915,785</u>	<u>915,000</u>
Basic earnings per share (RMB per share)	<u>1.41</u>	<u>0.01</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.

	Unaudited Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company (RMB'000)	<u>1,287,620</u>	<u>10,475</u>
Weighted average number of ordinary shares in issue (thousands)	915,785	915,000
Adjustments for:		
— Share options (thousands)	<u>1,605</u>	<u>244</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>917,390</u>	<u>915,244</u>
Diluted earnings per share (RMB per share)	<u>1.40</u>	<u>0.01</u>

8. DIVIDENDS

A final dividend of RMB150,461,000 that is related to the year ended 31 December 2020 was paid in May 2021 (2020: RMB125,364,000).

In addition, an interim dividend of HKD0.50 per share (2020: nil) was proposed by the board of directors on 23 August 2021. It will be payable on or about 8 October 2021 to shareholders whose names are on the register on 23 September 2021. This interim dividend, amounting to RMB381,518,000 (2020: nil), has not been recognised as a liability in these financial statements. It will be recognised in shareholders' equity in the financial statements of the Company for the year ending 31 December 2021.

9. INVENTORIES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Raw materials	3,264,985	2,344,703
Work-in-progress	525,463	446,589
Finished goods	1,059,171	1,004,426
	<u>4,849,619</u>	<u>3,795,718</u>

10. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade receivables	1,162,114	881,453
Less: provision for impairment	(15,549)	(15,077)
	<u>1,146,565</u>	<u>866,376</u>
Bills receivable	905,559	869,217
	<u>2,052,124</u>	<u>1,735,593</u>

As at 30 June 2021, included in the trade receivables were amount due from related parties of RMB20,988,000 (31 December 2020: RMB123,000).

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

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 and regions. The ageing analysis of the trade and bills receivables (including amounts due from related parties of trading in nature) by invoice date is as follows:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Within 30 days	1,437,595	1,101,062
31 to 90 days	471,445	448,412
91 to 180 days	124,710	168,690
181 days to 1 year	14,238	17,985
Over 1 year	19,685	14,521
	2,067,673	1,750,670
Less: provision for impairment	(15,549)	(15,077)
Trade and bills receivables — net	2,052,124	1,735,593

11. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Trade payables	999,540	784,824
Bills payable	3,623,949	1,867,835
	4,623,489	2,652,659

As at 30 June 2021, included in the trade payables were amounts due to related parties of RMB25,358,000 (31 December 2020: RMB8,568,000).

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

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 <i>RMB'000</i>
Within 90 days	3,614,254	2,121,441
91 to 180 days	964,568	485,176
181 days to 1 year	25,069	30,951
Over 1 year	19,598	15,091
	4,623,489	2,652,659

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Assets:		
Cotton option contracts (<i>Note (c)</i>)	43,467	27,332
Forward foreign exchange contracts (<i>Note (a)</i>)	24,541	62,690
Cross currency swap contracts (<i>Note (b)</i>)	17,433	21,145
	<u>85,441</u>	<u>111,167</u>
Liabilities:		
Cross currency swap contracts (<i>Note (b)</i>)	209,817	232,634
Cotton option contracts (<i>Note (c)</i>)	9,045	2,001
Forward foreign exchange contracts (<i>Note (a)</i>)	754	69
	<u>219,616</u>	<u>234,704</u>

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

Notes:

- (a) The forward foreign exchange contracts as at 30 June 2021 comprised thirty contracts with notional principal amounts totalling RMB1,097,877,000 (31 December 2020: thirty-eight contracts with notional principal amounts totalling RMB2,306,552,000).
- (b) The cross currency swap contracts as at 30 June 2021 comprised twenty-three contracts with notional principal amounts totalling RMB3,541,475,000 (31 December 2020: twenty-one contracts with notional principal amounts totalling RMB3,543,954,000).
- (c) The cotton option contracts as at 30 June 2021 comprised five contracts with notional principal amount totalling USD45,995,000 (31 December 2020: five contracts with notional principal amounts totalling USD45,823,000).

OVERVIEW

The Group is pleased to present its unaudited consolidated financial results for the six months ended 30 June 2021 (the “Review Period”) to the shareholders of the Company (the “Shareholders”). During the Review Period, the COVID-19 pandemic had yet to be fully contained around the world, and is still relatively severe in various countries. In particular, the emergence of the virus variants has increased the difficulties for controlling the epidemic. However, China has taken the lead in resumption of domestic market demand while the economic activities in countries in Europe along with the United States have gradually recovered after vaccination programmes. On the contrary, the exports in India, a major textiles supplier country, have been affected due to the pandemic. These factors have promoted the demand for the Group’s textile products, allowing us to make better use of the production capacity invested in and constructed during the past three years. In addition, the selling prices of yarns increased as the prices of raw materials also rose. The usage of the Group’s inventory of raw materials with relatively low costs drove a higher gross profit margin in yarns than the normal level during the Review Period. On the contrary, the profit of garment fabrics in the midstream business was under pressure during the relatively rapid rise in yarn prices, and its profitability faced some short-term challenges.

In summary, the revenue of the Group bounced back by approximately 52.5% from the corresponding period of the previous year to approximately RMB12.5 billion, a record high for the Group’s revenue. During the Review Period, the profit attributable to shareholders of the Company rebounded sharply to approximately RMB1,288 million, also a record high. Basic earnings per share also increased dramatically from RMB0.01 in the corresponding period of the previous year to RMB1.41.

INDUSTRY REVIEW

According to the National Bureau of Statistics of the PRC, between January and June 2021, enterprises with a sizeable capacity in the textile industry recorded an aggregate revenue of RMB1,170.75 billion, representing a year-on-year increase of 18.9%, with net profit at RMB44.6 billion, up by 2.3% year-on-year. Sizeable garment and apparel enterprises recorded revenue of RMB653.38 billion, representing a year-on-year increase of 13%, with net profit at RMB27.4 billion, up by 13.9% year-on-year. With respect to production volume, between January and June 2021, yarns, fabrics and synthetic fibre production amounted to 13.558 million tonnes, 18.7 billion metres and 33.373 million tonnes respectively, representing year-on-year increases of 17.8%, 11.8% and 17.1% respectively.

According to the General Administration of Customs of the PRC, between January and June 2021, the aggregate export value of textile apparel was US\$140.086 billion, representing an increase of 11.90%. Among these exports, US\$68.558 billion was attributable to textiles and US\$71.528 billion to garments, representing a decrease of 7.48% and an increase of 40.02% respectively.

According to Vietnam Customs, between January and June 2021, the export volume of yarns and staple fibre manufactured in Vietnam increased by 35.0% to 986,000 tonnes, representing an increase of 64.2% in revenue to US\$2.643 billion, while the revenue of garments exports increased by 16.2% to US\$15.311 billion.

BUSINESS REVIEW

Currently, the Group's revenue is mainly derived from sales of yarns. During the Review Period, revenue from sales of yarns increased by approximately 58.3% to approximately RMB9,875 million, and its percentage of the total revenue of the Group was approximately 78.8%. As for the midstream and downstream business segments, mainly driven by the sales of woven garment fabrics, with simultaneous development of kitted garment fabrics and garment manufacturing businesses, although the woven garment fabrics operation gradually recovered from the impact of the pandemic during the Review Period and the order volume basically returned to normal at the end of the second quarter of 2021, the recovery of the yarn market in China was better than the fabrics market in the Europe and the United States during the Review Period. The combination of these factors has driven our overall sales volume and revenue of yarns to its highest level ever, promoting the increase in the proportion of yarn sales to the Group's revenue.

Yarn operations

During the Review Period, the Group's sales volume of yarns amounted to approximately 417,000 tonnes, representing an increase of 37.8% as compared with the corresponding period last year. Following the recovery of the Chinese market at the beginning of the year, overseas markets have also gradually recovered. During the Review Period, customers have strong demand for the Group's products, and the rapid increase in orders from customers allowed us to adjust the product mix to an ideal state. The production capacity invested in and built over the past three years has been fully utilised, in contrast to the market conditions against the backdrop of the Sino-US trade dispute and the outbreak of pandemic in the past two years. In addition, the selling prices of yarns have risen as the raw materials prices have rebounded. The gross profit margin before the full utilisation of low cost raw materials in our inventory was higher than the normal level. During the Review Period, the average gross profit margin of yarns rose to 23.8%, representing an increase of 13.2 percentage points from the corresponding period last year.

Grey fabrics operations

During the Review Period, the Group's sales volume of grey fabrics amounted to approximately 25.60 million metres, representing a decrease of approximately 2.7% as compared with the corresponding period last year. The decrease in sales volume was mainly due to the increase in grey fabrics used for our garment fabric production over the corresponding period last year. Driven by the use of the Group's self-produced yarns, the gross profit margin of grey fabrics also increased from approximately 8.8% in the corresponding period last year to 31.4%.

Woven garment fabrics operations

The sales volume of woven garment fabrics produced by the Group amounted to approximately 64.00 million metres, while sales revenue amounted to approximately RMB1.16 billion, representing an increase of approximately 47.2% as compared with the corresponding period last year. The gross profit margin of woven garment fabrics increased from 20.7% in the corresponding period of 2020 to 22.4% for the Review Period. During the Review Period, affected by the increase in the prices of some purchased raw material yarns, and with US market demand only gradually recovering, the gross profit margin of woven garment fabrics was still under certain pressure.

Knitted garment fabrics operations

The sales volume of knitted garment fabrics produced by the Group increased from 6,400 tonnes in the corresponding period last year to 8,300 tonnes during the Review Period and the gross profit margin increased from 12.4% to 16.1%. During the Review Period, the sales of knitted garment fabrics were also affected by the increase in the price of raw material yarns purchased. At the same time, newly-installed equipment in the Vietnam factory was in the early stage of ramping up production, which affected the profit margin. During the Review Period, sales revenue amounted to approximately RMB450 million, representing an increase of 47.3% over the corresponding period last year.

Jeanswear operations

The sales volume of jeanswear produced by the Group increased from approximately 4.70 million pieces in the corresponding period last year to approximately 5.10 million pieces during the Review Period and the gross profit margin increased to approximately 12.7%. There is room for further improvement in product development and production efficiency, thereby improving profitability in the future.

Trading operations

The trading operations mainly comprise the US fabrics and garment trading business acquired by the Group in 2018. It has been extracted from each business segment and separately presented since the Review Period, in order to better analyze the operations of self-produced products and the trading business. During the Review Period, sales revenue for the trading operations was approximately RMB460 million and gross profit margin was approximately 12.3%. It is expected that the development of the Group's trading business would promote the expansion of the sales channels of its self-produced products and thus its business growth.

Non-woven fabrics operations

The non-woven fabrics operations are still in the exploratory stage. During the Review Period, the sales revenue amounted to approximately RMB42.34 million. Although it has recorded a significant increase compared with the corresponding period last year, the sourcing of customers is still subject to further expansion for more market orders.

The operating data of the Group's products during the Review Period as compared with the corresponding period is set out below:

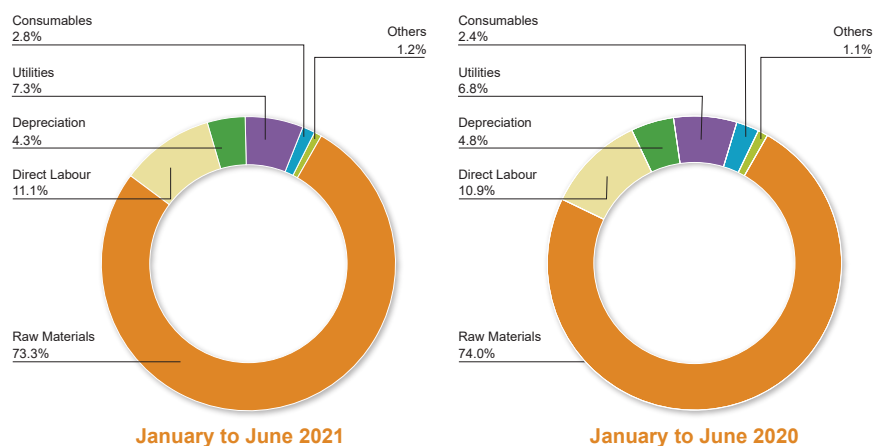
	Revenue from January to June 2021 RMB'000	Revenue from January to June 2020 RMB'000	Revenue change
Stretchable core-spun yarns	4,612,261	2,632,412	75.2%
Other yarns	5,262,862	3,606,228	45.9%
Grey fabrics	220,458	198,069	11.3%
Woven garment fabrics	1,161,071	788,740	47.2%
Knitted garment fabrics	452,338	307,163	47.3%
Jeanswear	314,795	286,824	9.8%
Trading	460,152	379,330	21.3%
Non-woven fabrics	42,343	15,670	170.2%
Total	12,526,280	8,214,436	52.5%

	Sales volume		Selling price		Gross profit margin	
	January to June 2021	January to June 2020	January to June 2021	January to June 2020	January to June 2021	January to June 2020
Stretchable core-spun yarns (Tonne/RMB per tonne)	188,281	121,547	24,497	21,658	22.5%	15.2%
Other yarns (Tonne/RMB per tonne)	228,769	181,018	23,005	19,922	24.9%	7.2%
Grey fabrics (Million metres/ RMB per metre)	25.6	26.3	8.6	7.5	31.4%	8.8%
Woven garment fabrics (Million metres/RMB per metre)	64.0	42.1	18.1	18.7	22.4%	20.7%
Knitted garment fabrics (Tonne/ RMB per tonne)	8,303	6,378	54,479	48,160	16.1%	12.4%
Jeanswear (Million pieces/ RMB per piece)	5.1	4.7	61.7	61.0	12.7%	8.6%
Non-woven fabrics (Tonne/ RMB per tonne)	1,923	862	22,019	18,179	5.8%	-20.7%

The overall gross profit margin of the Group rebounded from approximately 11.4% for the six months ended 30 June 2020 to approximately 22.8% for the six months ended 30 June 2021. The significant rebound of gross profit margin was mainly driven by the sales of yarn business.

The cost of sales of the Group increased by approximately 32.9% to RMB9.674 billion when compared with the corresponding period last year mainly driven by the increase in sales of yarns and woven garment fabrics. The cost of raw materials accounted for approximately 73.3% of the total cost of sales for the six months ended 30 June 2021.

The breakdown of the Group's cost of sales for the six months ended 30 June 2021 as compared with the cost of sales for the six months ended 30 June 2020 is shown below:



The Group will continue to implement its established corporate strategies, optimise its existing product mix and develop new products that address market trends and needs. In addition, the Group will also enhance the level of vertical integration among the various business segments, promote diversified business development and further improve its financial performance.

During the Review Period, the Group has continued to strengthen cooperation with world-renowned manufacturers of synthetic fibres and has built a long term strategic partnership. Some manufacturers of synthetic fibres have already set target plans for sustainable development and when to achieve carbon neutrality. The Group will increase its efforts to cooperate with these manufacturers and use innovative technology fibers to produce fashionable and durable functional yarns to cater to the development of differentiated high-end markets, while putting efforts on environmental protection, sustainable development and energy conservation and emission reduction. In addition, in response to market demand, the Group's research and development centre of yarns as well as research and development team of garment fabrics have been raising product quality and continue to develop new products in order to maintain its leading position in the industry, as well as satisfying customers' demand for diversified and high-end products.

The Chinese textile market has been the major market for the Group, accounted for approximately 67.1% of the total sales of the Group for the six months ended 30 June 2021. With the gradual recovery of overseas markets, the proportion of Group's overseas sales increased compared with the corresponding period last year. The ten largest customers of the Group for the six months ended 30 June 2021 accounted for approximately 14.1% of the total revenue.

PROSPECTS

As at 30 June 2021, the Group had an aggregate of approximately 2.52 million spindles and 1.62 million spindles located in China and overseas (mainly in Vietnam), respectively. For the current operations, in the past half year, the increase in the selling prices of the Group's yarns has completely caught up with the increase in raw materials prices, while the export supply of textiles in various countries or regions is still affected by the epidemic, which has been beneficial to our sales orders and profitability. We expect that the yarn business of the Group will benefit from the current operating environment for a certain period in the future.

The current unstable pandemic situation in Vietnam is putting pressure on utilisation of capacity there in the second half of the year. For our factories in northern Vietnam, the Group has arranged vaccinations for employees who are willing to vaccinate achieving nearly 90% coverage. As at the date of this announcement, our employees for the factories in southern Vietnam have completed the first round of vaccination, in order to meet the requirements of the local government for pandemic prevention and control, only employees who have accommodation in the factory can continue to work as usual, resulting in the reduction of the factory's utilisation of capacity to below 40%. If the relevant conditions are maintained for 30 days, it would affect the annual yarn production capacity of the Group by about 1%. The Group will closely monitor the development of the pandemic and make every effort to protect employees' health from serious impact. The target sales volume of knitted garment fabrics for 2021 has to be reduced to 20,000 tonnes as the completion of the new Vietnam plant has been delayed and the pandemic situation in Vietnam has also slowed down the product deliveries to garment factories.

The Group will persist in the development of internationalisation and vertical integration of the industrial chain, consolidating existing production bases in China, Vietnam, Turkey, Mexico and Nicaragua. The Group will utilise its advantages of regional supply and vertically integrated fabric production in order to enhance and stabilise its profitability. The Group will also focus on completing the construction of a new knitted garment fabric factory in Vietnam and the technical transformation of a number of local yarn factories in the second half of 2021.

On 20 July 2021, the Group was again named among the "Fortune 500 Chinese Companies 2021", wide recognition and a strong endorsement of its continuous expansion. The Group is ranked second by the China Cotton Textile Association among cotton textile enterprises in terms of sales revenue in 2020. The Group will continue to work tirelessly, exerting its best efforts to bring long term and sustainable returns to the Shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2021, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB3,286 million (as at 31 December 2020: RMB2,944 million). The increase in bank and cash balances was mainly attributable to the substantial increase in the Group's revenue and the accelerated collection of the domestic sales.

As at 30 June 2021, the Group's inventories increased by RMB1,053.9 million to RMB4,849.6 million (as at 31 December 2020: RMB3,795.7 million), and trade and bills receivables increased by RMB316.5 million to RMB2,052.1 million (as at 31 December 2020: RMB1,735.6 million). The inventory turnover days and trade and bills receivables turnover days were 80 days and 27 days for the Review Period respectively, as compared to 95 days and 30 days for the year ended 31 December 2020 respectively. The decrease in inventory turnover days was mainly due to the significantly increased sales of yarns as a result of the recovery of the Chinese textile market and the rebound in overseas markets. The trade and bills receivables turnover days was lower than that of last year, which was mainly due to the increase in the sales of yarns and the accelerated collection from the domestic customers. As at 30 June 2021, the trade and bills payables of the Group increased to RMB4,623.5 million (as at 31 December 2020: RMB2,652.7 million), which was mainly due to the increase in the purchase quantity and price of raw materials in the first half of 2021.

As at 30 June 2021, the Group's borrowings decreased by RMB978.1 million to RMB6,085.0 million (as at 31 December 2020: RMB7,063.1 million), which were mainly due to the repayment of certain bank loans in advance as a result of the abundant cash flow of the Group.

As at 30 June 2021 and 31 December 2020, the Group's key financial ratios were as follows:

	As at 30 June 2021	As at 31 December 2020
Current ratio	1.25	1.16
Debt to equity ratio ¹	0.67	0.90
Net debt to equity ratio ²	0.31	0.52

¹ Based on total borrowings over total equity attributable to shareholders

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

Foreign exchange risk

The Group mainly operates in the PRC and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in Renminbi, US dollar and Hong Kong dollar. 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 bank borrowings and raw material procurement denominated in US dollar and Hong Kong dollar. 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 had 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 six months ended 30 June 2021, the capital expenditure of the Group amounted to approximately RMB677 million (for the six months ended 30 June 2020: RMB255 million), which was mainly related to the technical transformation of yarn factories and the construction work conducted for the increase in the production capacity of garment fabrics in the PRC, Vietnam and America during the Review Period.

Material acquisition and disposal

There was no material acquisition or disposal of subsidiaries and associated companies of the Company during the Review Period.

Disclosure pursuant to Rule 13.21 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 a 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.

Pledge of assets

As at 30 June 2021, the Group's buildings with a net book amount of RMB378.0 million, land use rights with a net book amount of RMB79.38 million and bank deposits with a net book amount of RMB300 million were pledged to secure for bank borrowings (As at 31 December 2020: bills receivable with a net book amount of RMB160 million and bank deposits with a net book amount of RMB200 million).

Contingent liabilities

As at 30 June 2021, the Group had no material contingent liabilities (as at 31 December 2020: nil).

Human resources

As at 30 June 2021, the Group had a total workforce of 39,926 employees (as at 31 December 2020: 38,545 employees), of whom 20,461 employees were based in the regional headquarters in Shanghai and our manufacturing plants in Mainland China. The remaining 19,465 employees were stationed in regions outside of Mainland China including Vietnam, Turkey, Nicaragua, North America, Hong Kong and Macao. The Group will continuously optimize the workforce structure and offer its staff with competitive remuneration packages. The Group is committed to promote a learning and knowledge sharing culture within the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success depends on the contributions of our skilled and motivated staff in all our functional divisions.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio of about 30% of the Group's net profit for the year attributable to owners of the Company, providing our Shareholders with reasonable returns. The Board has resolved to declare an interim dividend of 50 HK cents per share for the six months ended 30 June 2021 to Shareholders whose names appear on the register of shareholders of the Company in Hong Kong on 23 September 2021.

Closure of register of members

The register of members of the Company will be closed from 20 September 2021 to 23 September 2021, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 8 October 2021), Shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. on 17 September 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 six months ended 30 June 2021.

CORPORATE GOVERNANCE

The Group is 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 four executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Listing Rules on the Stock Exchange. During the reporting period, the Company had complied with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors' securities transactions during the Review Period.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, namely, 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 audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The audit committee has discussed with management and reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2021.

REMUNERATION COMMITTEE

During the Review Period, the remuneration committee of the Board comprises three independent non-executive Directors and one executive Director, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming, Professor Cheng Longdi and Mr. Hong Tianzhu (which ceased to be a member of the remuneration committee on 23 August 2021). Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

NOMINATION COMMITTEE

The nomination committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Hong Tianzhu is the chairman of the nomination committee. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

By order of the Board
Texhong Textile Group Limited
Hong Tianzhu
Chairman

Hong Kong, 23 August 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

Independent non-executive directors:

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