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## **TEXHONG INTERNATIONAL GROUP LIMITED**

**天虹國際集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2678)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022**

#### **FINANCIAL HIGHLIGHTS**

- Revenue decreased by 10.2% to RMB23.8 billion
- Gross profit margin decreased by 10.5 percentage points to 11.6%
- Net profit margin decreased by 9.5 percentage points to 0.8%
- Profit attributable to shareholders decreased by 94.2% to RMB156.8 million
- Basic earnings per share were RMB0.17

The board (the “Board”) of directors (the “Directors”) of Texhong International 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 2022, together with the comparative figures for 2021.

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

		Year ended 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Revenue	2	23,805,354	26,521,193
Cost of sales	4	<u>(21,049,732)</u>	<u>(20,669,222)</u>
<b>Gross profit</b>		<b>2,755,622</b>	<b>5,851,971</b>
Selling and distribution costs	4	(886,380)	(956,333)
General and administrative expenses	4	(1,316,058)	(1,451,697)
Net accrual of impairment losses on financial assets		(39,615)	(30,873)
Other income	3	123,052	95,543
Other losses — net	3	<u>(34,760)</u>	<u>(85,414)</u>
<b>Operating profit</b>		<b><u>601,861</u></b>	<b><u>3,423,197</u></b>
Finance income	5	37,743	44,589
Finance costs	5	<u>(504,604)</u>	<u>(167,252)</u>
Finance costs — net	5	<u>(466,861)</u>	<u>(122,663)</u>
Share of profits less losses of investments accounted for using the equity method		<u>36,159</u>	<u>39,617</u>
<b>Profit before income tax</b>		<b>171,159</b>	<b>3,340,151</b>
Income tax credit/(expense)	6	<u>30,027</u>	<u>(598,535)</u>
<b>Profit for the year</b>		<b><u>201,186</u></b>	<b><u>2,741,616</u></b>
<b>Attributable to:</b>			
Owners of the Company		156,808	2,685,170
Non-controlling interests		<u>44,378</u>	<u>56,446</u>
		<b><u>201,186</u></b>	<b><u>2,741,616</u></b>
<b>Earnings per share for profit attributable to owners of the Company</b>			
— Basic earnings per share	7	<u>RMB0.17</u>	<u>RMB2.93</u>
— Diluted earnings per share	7	<u>RMB0.17</u>	<u>RMB2.93</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>201,186</b>	2,741,616
<b>Other comprehensive losses</b>		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Revaluation of buildings		
— Gross	<b>8,198</b>	—
— Deferred income tax	<b>23,662</b>	—
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<b>52,626</b>	(1,838)
<b>Total comprehensive income for the year</b>	<b>285,672</b>	<b>2,739,778</b>
<b>Attributable to:</b>		
Owners of the Company	<b>229,789</b>	2,683,332
Non-controlling interests	<b>55,883</b>	56,446
	<b>285,672</b>	<b>2,739,778</b>

## CONSOLIDATED BALANCE SHEET

As at 31 December 2022

	<i>Note</i>	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Freehold land		<b>188,492</b>	163,957
Property, plant and equipment		<b>9,606,778</b>	9,229,119
Investment properties		<b>268,891</b>	—
Right-of-use assets		<b>1,581,210</b>	1,227,190
Intangible assets		<b>65,417</b>	69,078
Long-term receivables		<b>146,000</b>	292,000
Investments accounted for using the equity method		<b>360,040</b>	320,938
Deferred income tax assets		<b>305,617</b>	91,983
		<u><b>12,522,445</b></u>	<u>11,394,265</u>
<b>Current assets</b>			
Inventories	<i>9</i>	<b>7,590,105</b>	7,151,667
Properties under development		<b>340,796</b>	235,113
Trade and bills receivables and financial assets at fair value through other comprehensive income	<i>10</i>	<b>1,743,761</b>	2,019,660
Prepayments, deposits and other receivables		<b>1,274,771</b>	890,817
Derivative financial instruments	<i>12</i>	<b>99,353</b>	55,653
Pledged bank deposits		<b>111,647</b>	190,302
Cash and cash equivalents		<b>2,468,421</b>	2,505,407
		<u><b>13,628,854</b></u>	<u>13,048,619</u>
<b>Total assets</b>		<u><b>26,151,299</b></u>	<u>24,442,884</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital: nominal value		<b>96,958</b>	96,958
Share premium		<b>462,059</b>	462,059
Other reserves		<b>999,848</b>	907,534
Retained earnings		<b>7,942,758</b>	8,571,719
		<u><b>9,501,623</b></u>	<u>10,038,270</u>
<b>Non-controlling interests</b>		<u><b>599,853</b></u>	<u>562,682</u>
<b>Total equity</b>		<u><b>10,101,476</b></u>	<u>10,600,952</u>

	<i>Note</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>3,388,214</b>	3,383,377
Lease liabilities		<b>258,695</b>	82,627
Deferred income tax liabilities		<b>236,030</b>	286,482
		<u><b>3,882,939</b></u>	<u>3,752,486</u>
<b>Current liabilities</b>			
Trade and bills payables	<i>11</i>	<b>4,597,463</b>	4,576,337
Contract liabilities		<b>659,458</b>	361,634
Accruals and other payables		<b>884,143</b>	903,579
Current income tax liabilities		<b>123,880</b>	188,766
Borrowings		<b>5,155,158</b>	3,831,662
Supply chain financing		<b>549,041</b>	—
Derivative financial instruments	<i>12</i>	<b>142,054</b>	165,975
Lease liabilities		<b>55,687</b>	31,622
Long-term payables due within 1 year		<b>—</b>	29,871
		<u><b>12,166,884</b></u>	<u>10,089,446</u>
<b>Total liabilities</b>		<u><b>16,049,823</b></u>	<u>13,841,932</u>
<b>Total equity and liabilities</b>		<u><b>26,151,299</b></u>	<u>24,442,884</u>

## NOTES :

### 1. GENERAL INFORMATION

Texhong International Group Limited (formerly known as Texhong Textile Group Limited) (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and sales of yarns, 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 2022 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 28 March 2023.

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) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. 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, financial assets at fair value through other comprehensive income, which are carried at fair value.

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

#### **Changes in accounting policies and disclosures**

##### ***(a) Amendments to HKFRSs adopted by the Group in 2022***

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) Property, Plant and Equipment: Proceeds before intended use — Amendments to HKAS 16
- (ii) Reference to the Conceptual Framework — Amendments to HKFRS 3
- (iii) Onerous Contracts — Cost of Fulfilling a Contract — Amendments to HKAS 37

(iv) Annual Improvements to HKFRS Standards 2018–2020

**(b) *The following new standard and amendments to HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2022 and have not been early adopted by the Group:***

- (i) HKFRS 17 ‘Insurance Contracts’, effective for annual periods beginning on or after 1 January 2023.
- (ii) Amendments to HKAS 1 regarding classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2024.
- (iii) 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.
- (iv) Amendments to HKAS 8 regarding definition of Accounting Estimates, effective for annual periods beginning on or after 1 January 2023.
- (v) 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.
- (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) Hong Kong Interpretation 5 (2020) regarding presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause, effective for annual periods beginning on or after 1 January 2023.
- (viii) Amendments to HKFRS 16 regarding Lease liability in a sale and leaseback, effective for annual periods beginning on or after 1 January 2024.
- (ix) Amendments to AG 5 Merger Accounting for Common Control Combinations, effective for annual periods beginning on or after 1 January 2023.

## **2. REVENUE AND SEGMENTAL INFORMATION**

The chief operating decision-maker has been identified as the Committee of Executive Directors of the Company. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Committee of Executive Directors reviews the Group’s internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Committee of Executive Directors considers the business from both a product and geographical perspective. From a product perspective, management assesses the performance from sales of yarns, grey fabrics, non-woven fabrics and garment fabrics as well as garments.

China now includes Mainland China, Hong Kong and Macao. Southeast Asia now includes Vietnam and Cambodia. Americas now includes United States, Mexico, Nicaragua and Honduras.

The revenues from external customers in Asia and Americas accounted for 89.9% and 9.5% (2021: 90.5% and 8.6%) of the Group's total revenue respectively.

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 2022 is as follows:

	Year ended 31 December 2022											
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Total
	Southeast		Americas	Others	Southeast			Southeast		Southeast		Total
	China	Asia			China	Asia	Americas	China	Asia	China	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 revenue	25,160,952	8,268,556	239,632	469,647	3,985,993	1,165,346	1,365,820	797,831	523,424	39,469	95,987	42,112,657
Inter-segment revenue	(8,566,668)	(6,998,754)	(210,178)	—	(527,280)	(1,060,308)	(277,449)	(69,872)	(523,403)	—	(73,391)	(18,307,303)
<b>Revenue (from external customers)</b>	<b>16,594,284</b>	<b>1,269,802</b>	<b>29,454</b>	<b>469,647</b>	<b>3,458,713</b>	<b>105,038</b>	<b>1,088,371</b>	<b>727,959</b>	<b>21</b>	<b>39,469</b>	<b>22,596</b>	<b>23,805,354</b>
Timing of revenue recognition												
— At a point in time	16,594,284	1,269,802	29,454	469,647	3,458,713	105,038	1,088,371	727,959	21	39,469	22,596	23,805,354
<b>Segment results</b>	<b>210,057</b>	<b>248,397</b>	<b>(42,021)</b>	<b>46,000</b>	<b>185,915</b>	<b>(12,855)</b>	<b>(411)</b>	<b>15,587</b>	<b>3,857</b>	<b>(840)</b>	<b>(71,904)</b>	<b>581,782</b>
Unallocated profit												20,079
<b>Operating profit</b>												<b>601,861</b>
Finance income												37,743
Finance costs												(504,604)
Share of profits less losses of investments accounted for using the equity method												36,159
Income tax credit												30,027
<b>Profit for the period</b>												<b>201,186</b>
Depreciation and amortisation	(407,538)	(323,725)	(45,910)	(18,114)	(94,090)	(41,603)	(34,083)	(10,230)	(23,080)	—	(30,677)	(1,029,050)

The segment information for the year ended 31 December 2021 is as follows:

	Year ended 31 December 2021											Total RMB'000
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		
	Southeast		Americas	Others	Southeast		Americas	Southeast		Southeast		
	China	Asia			China	Asia		China	Asia	China	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 revenue	26,900,083	9,193,801	101,476	478,657	4,494,406	943,819	1,153,676	808,965	577,326	110,121	156,853	44,919,183
Inter-segment revenue	(7,913,992)	(8,008,375)	(101,476)	(7,387)	(323,615)	(861,212)	(240,555)	(222,130)	(575,719)	—	(143,529)	(18,397,990)
<b>Revenue (from external customers)</b>	<b>18,986,091</b>	<b>1,185,426</b>	<b>—</b>	<b>471,270</b>	<b>4,170,791</b>	<b>82,607</b>	<b>913,121</b>	<b>586,835</b>	<b>1,607</b>	<b>110,121</b>	<b>13,324</b>	<b>26,521,193</b>
Timing of revenue recognition												
— At a point in time	18,986,091	1,185,426	—	471,270	4,170,791	82,607	913,121	586,835	1,607	110,121	13,324	26,521,193
<b>Segment results</b>	<b>1,297,843</b>	<b>1,660,822</b>	<b>(22,916)</b>	<b>101,391</b>	<b>354,797</b>	<b>31,181</b>	<b>21,874</b>	<b>84,086</b>	<b>33,018</b>	<b>(6,001)</b>	<b>(5,222)</b>	<b>3,550,873</b>
Unallocated losses												(127,676)
<b>Operating profit</b>												<b>3,423,197</b>
Finance income												44,589
Finance costs												(167,252)
Share of profits less losses of investments accounted for using the equity method												39,617
Income tax expense												(598,535)
<b>Profit for the period</b>												<b>2,741,616</b>
Depreciation and amortisation	(453,526)	(310,362)	(17,673)	(16,676)	(102,897)	(43,613)	(33,183)	(12,667)	(23,747)	—	(23,212)	(1,037,556)

The segment assets and liabilities as at 31 December 2022 are as follows:

	As at 31 December 2022											Total RMB'000
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		
	Southeast				Southeast			Southeast		Southeast		
	China RMB'000	Asia RMB'000	Americas RMB'000	Others RMB'000	China RMB'000	Asia RMB'000	Americas RMB'000	China RMB'000	Asia RMB'000	China RMB'000	Asia RMB'000	
Total segment assets	10,815,352	6,156,506	1,189,212	507,466	3,452,885	1,415,621	626,556	365,726	454,044	2,668	537,003	25,523,039
Unallocated assets												628,260
<b>Total assets of the Group</b>												<b>26,151,299</b>
Total segment liabilities	(5,968,788)	(3,037,955)	(862,945)	(326,382)	(206,986)	(1,140,683)	(407,921)	(213,425)	(398,391)	(135)	(503,779)	(13,067,390)
Unallocated liabilities												(2,982,433)
<b>Total liabilities of the Group</b>												<b>(16,049,823)</b>
Addition to non-current assets	<u>830,096</u>	<u>724,655</u>	<u>381,479</u>	<u>14,397</u>	<u>149,393</u>	<u>116,623</u>	<u>27,350</u>	<u>20,236</u>	<u>120,625</u>	<u>—</u>	<u>6,176</u>	<u>2,391,030</u>

The segment assets and liabilities as at 31 December 2021 are as follows:

	As at 31 December 2021											Total RMB'000
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		
	Southeast				Southeast			Southeast		Southeast		
	China RMB'000	Asia RMB'000	Americas RMB'000	Others RMB'000	China RMB'000	Asia RMB'000	Americas RMB'000	China RMB'000	Asia RMB'000	China RMB'000	Asia RMB'000	
Total segment assets	11,095,040	5,169,955	591,340	408,889	3,686,870	1,250,814	677,472	201,580	351,632	17,548	586,538	24,037,678
Unallocated assets												405,206
<b>Total assets of the Group</b>												<b>24,442,884</b>
Total segment liabilities	(3,416,648)	(4,190,308)	(388,146)	(271,000)	(749,688)	(970,023)	(418,489)	(80,137)	(311,360)	(804)	(477,171)	(11,273,774)
Unallocated liabilities												(2,568,158)
<b>Total liabilities of the Group</b>												<b>(13,841,932)</b>
Addition to non-current assets	<u>885,199</u>	<u>609,513</u>	<u>252,939</u>	<u>19,835</u>	<u>215,009</u>	<u>262,413</u>	<u>69,110</u>	<u>21,104</u>	<u>871</u>	<u>—</u>	<u>10,614</u>	<u>2,346,607</u>

### 3. OTHER INCOME AND OTHER LOSSES — NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Other income — net		
Subsidy income (a)	115,179	95,543
Rental income	26,843	—
Depreciation of investment properties	<u>(18,970)</u>	<u>—</u>
Total other income — net	<u><u>123,052</u></u>	<u><u>95,543</u></u>
Other losses — net		
Gains on acquisition of subsidiaries	—	13,665
Gains on disposal of subsidiaries	—	33,702
Financial assets at fair value through profit or loss:		
— Realised gains	27,741	—
Compensation for order cancellation	12,567	—
Derivative financial instruments at fair value through profit or loss:		
— Realised losses	(11,182)	(133,302)
— Unrealised gains	67,621	13,214
Net foreign exchange losses — net	(162,354)	(33,136)
Others	<u>30,847</u>	<u>20,443</u>
Total other losses — net	<u><u>(34,760)</u></u>	<u><u>(85,414)</u></u>

- (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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials and consumables used	17,944,112	16,898,906
Changes in inventories of finished goods and work in progress	(1,523,251)	(626,277)
Employment benefit expenses	2,594,979	2,888,955
Depreciation and amortisation	1,010,080	1,037,556
Impairment charges on property, plant and equipment	—	57,202
Losses/(gains) on disposal of property, plant and equipment	3,780	(1,394)
Office expenses	125,675	88,317
Utilities	1,528,920	1,541,231
Transportation costs	428,899	528,214
Auditor's remuneration		
— Annual audit services	3,500	4,300
— Special audit services	3,000	—
— Non-audit services	1,335	780
Rental expenses for buildings, machinery and others	27,842	4,195
Net accrual of provision for decline in value of inventories	495,159	16,177
Other expenses	608,140	639,090
	<u>23,252,170</u>	<u>23,077,252</u>

#### 5. FINANCE COSTS — NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest expenses		
— Borrowings	364,426	195,620
— Long term payables	855	5,895
— Lease liabilities	10,183	5,393
	<u>375,464</u>	<u>206,908</u>
Net exchange losses/(gains) on financing activities	192,747	(39,656)
Less: finance costs capitalised in building and machinery in property, plant and equipment	(63,607)	—
Finance costs	<u>504,604</u>	<u>167,252</u>
Finance income — interest income on bank deposits	(37,743)	(44,589)
Net finance costs	<u>466,861</u>	<u>122,663</u>

## 6. INCOME TAX (CREDIT)/EXPENSE

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

	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
Current tax on profits for the year	<b>210,397</b>	584,511
Deferred income tax	<b>(240,424)</b>	14,024
	<b>(30,027)</b>	598,535

### (a) Hong Kong profits tax

Subsidiaries incorporated in Hong Kong are subject to profits tax at a rate of 16.5% (2021:16.5%).

### (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 (2021: 25%).

As approved by the relevant tax bureau in Mainland China, sixteen subsidiaries are entitled to a preferential tax rate of 15% during the year (2021: sixteen 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, subsidiaries established in Vietnam are entitled to four years’ exemption for income taxes followed by nine years of a 50% tax reduction, based on the income tax rate of 20% (2021: 20%), 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 (2021: 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 an income tax rate of 12% (2021: 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 (2021: nil).

The Company's subsidiary established in Uruguay is subject to an income tax rate of 25% (2021: 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 (2021: nil).

The Company's subsidiary established in Cambodia is subject to an income tax at the rate of 20% (2021: 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 (2021: nil).

The Company's subsidiaries established in Nicaragua are subject to income tax at the rate of 30% (2021: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiaries are entitled to exemption from profits tax during the year (2021: exempted).

The Company's subsidiaries established in Samoa are exempted from profits tax during the year (2021: exempted).

The Company's subsidiary established in Turkey is subject to an income tax at the rate of 23% (2021: 25%).

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 (2021: 27.5% to 30%).

The Company's subsidiaries established in Mexico are subject to income tax at the rate of 30% (2021: 30%).

The Company's subsidiaries established in Honduras are subject to income tax at the rate of 25%.

## 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.

	2022	2021
Profit attributable to owners of the Company ( <i>RMB'000</i> )	<u>156,808</u>	<u>2,685,170</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u>918,000</u>	<u>916,715</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>0.17</u>	<u>2.93</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.

	2022	2021
Profit attributable to owners of the Company ( <i>RMB'000</i> )	<u>156,808</u>	<u>2,685,170</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	918,000	916,715
Adjustments for:		
— Share options ( <i>thousands</i> )	<u>144</u>	<u>904</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	<u>918,144</u>	<u>917,619</u>
Diluted earnings per share ( <i>RMB per share</i> )	<u>0.17</u>	<u>2.93</u>

## 8. DIVIDENDS

The dividend paid in 2022 were RMB766,436,000 (2021: RMB527,576,000), being HKD0.95 per ordinary share (2021: HKD0.70 per ordinary share).

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Final dividend for the year ended 31 December 2021 of HKD0.57 (2020: HKD0.20) per ordinary share	<b>447,492</b>	150,461
Interim dividend for the year ended 31 December 2022 HKD0.38 (2021: HKD0.50) per ordinary share	<b>318,944</b>	377,115
	<b><u>766,436</u></b>	<b><u>527,576</u></b>

No proposal of final dividend in respect of the year ended 31 December 2022 has been made per ordinary share (2021: proposal of final dividend of HKD0.57 per ordinary share, amounting to RMB427,817,000).

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Proposed final dividend for the year ended 31 December 2022 of HKD nil (2021: HKD0.57) per ordinary share	<b>—</b>	427,817
	<b><u>—</u></b>	<b><u>427,817</u></b>

## 9. INVENTORIES

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Raw materials	<b>4,515,136</b>	5,104,790
Work-in-progress	<b>604,728</b>	596,777
Finished goods	<b>3,075,127</b>	1,559,827
	<b>8,194,991</b>	7,261,394
Less: provision for write-down of inventories to net realisable value	<b>(604,886)</b>	(109,727)
	<b><u>7,590,105</u></b>	<b><u>7,151,667</u></b>

The cost of inventories recognised as expense and included in cost of sales amounted to RMB16,420,861,000 (2021: RMB16,272,629,000).

In 2022, the Group made an inventory provision of approximately RMB495,159,000 (2021: RMB16,177,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

**10. TRADE AND BILLS RECEIVABLES AND FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

**(a) Financial assets at fair value through other comprehensive income**

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Current	<u><b>380,615</b></u>	<u>299,848</u>

Bills receivables held both by collecting contractual cash flows and selling of these assets are classified as financial assets at fair value through other comprehensive income.

**(b) Trade and bills receivables**

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	<b>1,090,423</b>	1,293,965
Bills receivable	<u><b>288,146</b></u>	<u>437,174</u>
	<b>1,378,569</b>	1,731,139
Less: provision for impairment	<u><b>(15,423)</b></u>	<u>(11,327)</u>
	<u><b>1,363,146</b></u>	<u>1,719,812</u>

As at 31 December 2022, included in the trade receivables were amounts due from related parties of RMB13,984,000 (2021: RMB31,428,000).

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. 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:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 30 days	<b>755,648</b>	1,258,767
31 to 90 days	<b>364,322</b>	397,914
91 to 180 days	<b>210,345</b>	49,572
181 days to 1 year	<b>38,154</b>	1,934
Over 1 year	<u><b>10,100</b></u>	<u>22,952</u>
	<b>1,378,569</b>	1,731,139
Less: provision for impairment	<u><b>(15,423)</b></u>	<u>(11,327)</u>
Trade and bills receivables — net	<u><b>1,363,146</b></u>	<u>1,719,812</u>

## 11. TRADE AND BILLS PAYABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade payables	562,329	1,433,658
Bills payable	<u>4,035,134</u>	<u>3,142,679</u>
	<u><u>4,597,463</u></u>	<u><u>4,576,337</u></u>

As at 31 December 2022, included in trade payables were amounts due to related parties of RMB20,288,000 (2021: RMB25,111,000).

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:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 90 days	2,873,836	3,801,252
91 to 180 days	1,695,273	750,893
181 days to 1 year	18,667	8,580
Over 1 year	<u>9,687</u>	<u>15,612</u>
	<u><u>4,597,463</u></u>	<u><u>4,576,337</u></u>

## 12. DERIVATIVE FINANCIAL INSTRUMENTS

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Assets:		
Cross currency swap contracts ( <i>Note (a)</i> )	66,000	3,725
Forward foreign exchange contracts ( <i>Note (b)</i> )	23,862	19,869
Cotton option contracts ( <i>Note (c)</i> )	7,096	29,874
Cotton future contract ( <i>Note (d)</i> )	<u>2,395</u>	<u>2,185</u>
	<u><u>99,353</u></u>	<u><u>55,653</u></u>
Liabilities:		
Forward foreign exchange contracts ( <i>Note (b)</i> )	131,991	2,056
Cross currency swap contracts ( <i>Note (a)</i> )	10,063	160,921
Cotton option contracts ( <i>Note (c)</i> )	<u>—</u>	<u>2,998</u>
	<u><u>142,054</u></u>	<u><u>165,975</u></u>

Non-hedging derivatives are classified as current assets or liabilities.

*Notes:*

- (a) The cross currency swap contracts as at 31 December 2022 comprised eight contracts with notional principal amounts totaling RMB1,703,641,000 (2021: twenty-six contracts with notional principal amounts totaling RMB3,490,612,000).
- (b) The forward foreign exchange contracts as at 31 December 2022 comprised one hundred and seventy-two contracts with notional principal amounts totaling RMB6,743,389,000 (2021: sixty-two contracts with notional principal amounts totaling RMB902,208,000).
- (c) The cotton option contracts as at 31 December 2022 comprised one contract with notional principal amount of USD2,897,000 (2021: nine contracts with notional principal amount of USD66,069,000).
- (d) The cotton future contract as at 31 December 2022 comprised one contract with notional principal amount of USD32,482,000 (2021: one contract with notional principal amount of USD5,850,000).

## CHAIRMAN'S STATEMENT

### RESULTS

The textile industry underwent unprecedented challenges and changes in 2022. On the one hand, while most foreign countries and markets have gradually recovered from the impact of the COVID-19 pandemic, the Chinese market faced its most difficult period in the fight against the virus in 2022. Since the second quarter, the highly transmissible Omicron strain caused a serious situation in some cities and regions in the PRC, leading to the total or partial suspension of major commercial and trading hubs, whilst normal operations in different aspects of businesses such as procurement, production, logistics and retail were severely affected. On the other hand, the overall global consumption demand was weaker than expected in 2022. The weakened downstream market led to higher inventory levels in the textile and apparel industry, thereby exerting pressure on exports of textile products and apparels. Meanwhile, the significant fluctuation in the Renminbi exchange rate posed a huge challenge to export trade as well as corporate foreign exchange management. Regarding raw materials, with the Russia-Ukraine tension severely impacting the commodity price, coupled with multiple and frequent COVID-19 epidemic outbreaks weakening market demand in China, domestic and international cotton prices both continued to decline in the second half of 2022. Meanwhile, international cotton prices experienced a milder decline under the influence of global inflation, widening the gap between domestic and international cotton prices. Such a challenging macro environment resulted in a decline in the capacity utilization rate of many factories in the industry, and in turn a sharp decline in the output and profitability of textile and apparels.

In such a market environment, the Group swiftly adjusted its product structure and capacity deployment in response to market dynamics and demand to ensure maximum capacity utilization, while vigorously integrating resources and rectifying inefficient production capacity. To improve management efficiency, the Group took actions to strengthen internal management system and restructure personnel, so that the management system truly matches up with the business development strategy of the Group. The Group also proactively collaborated with downstream customers and brands to maintain information exchange, and minimize waste and conflicts in various parts of the supply chain. Thanks to the concerted efforts of all the Group's employees, the Group's sales revenue reached approximately RMB23.8 billion. Despite a slight decrease from the preceding year, the sales revenue remained at a reasonable level, considering the exceptionally positive circumstances of the market in the preceding year, and the market and raw material price challenges faced by the Group this year. Nonetheless, the Group's profitability was still affected. In 2022, profit attributable to shareholders of the Company amounted to approximately RMB156.8 million, and basic earnings per share were RMB0.17.

## OUTLOOK

Moving forward to 2023, domestic and foreign retail markets continue to encounter relatively notable challenges. The turnaround of the overall situation in the Chinese textile industry is uncertain, but with the relaxation of COVID-19 pandemic prevention policies in the PRC, business operations and consumption have gradually returned to normal. Concurrently, the trend and resolute policies aiming at driving economic development lend robust support to the industry's revitalization.

In the upcoming business year, the Group plans to vigorously adjust its organizational management and production structure to adapt to changes in the macro environment. The Group also intends to rationalize or even exit inefficient businesses and production capacity. While implementing lean operations, the Group will also enhance the efficiency of its middle and back office management and fully utilize its existing production capacity, thereby improving profitability. Given the influence of the global geopolitical situation, a significant shift in demand-driven textile production capacity is inevitable. The Group has already commenced the deployment for overseas production capacity many years ago and has laid a solid foundation for production and operation abroad. Such a foundation has enabled us to be better prepared for industry reshuffling, so that we can adjust the division of domestic and foreign production capacity to meet market demand rapidly. Meanwhile, we are joining forces with downstream parties, leveraging the advantages of our yarns to pave the way for adopting the major strategy of regional and platform-based development. The Group believes that with years of industry-leading experience and the first-mover advantage of global deployment, we will be able to persevere and move forward to embrace a brighter future in the midst of turbulence.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OVERVIEW**

The Group is pleased to report its annual results for the year ended 31 December 2022 (the “Year”) to its shareholders. During the Year, the Group’s revenue decreased by 10.2% to approximately RMB23.8 billion as compared with the previous year. The Group’s net profit was approximately RMB201.2 million, a decrease of 92.7% as compared with the previous year. Profit attributable to shareholders of the Company was approximately RMB156.8 million, a decrease of 94.2% as compared with the previous year. Basic earnings per share also decreased to RMB0.17 from RMB2.93 of previous year.

### **INDUSTRY REVIEW**

According to statistics from the National Bureau of Statistics of the PRC, the aggregate sales achieved by sizeable textile enterprises amounted to approximately RMB2,615.8 billion in 2022, representing a 1.1% decrease year-on-year, with a net profit of approximately RMB100.1 billion in aggregate, down 17.8% year-on-year. The total sales of sizeable textile garment and apparel enterprises amounted to approximately RMB1,453.9 billion, representing a year-on-year decrease of 4.6%, with a net profit of approximately RMB76.4 billion, down 6.3% year-on-year. According to data from the General Administration of Customs of the PRC, the PRC exported around US\$156.8 billion worth of textile products in 2022, representing a year-on-year increase of 1.4%, while the value of garments exported reached approximately US\$184.1 billion, a year-on-year increase of 3.4%.

According to statistics from Vietnam Customs, the export volume of yarns and staple fibre manufactured in Vietnam fell by 16.8% to approximately 1.6 million tonnes in 2022, generating approximately US\$4.7 billion in revenue, a decrease of 16.0% as compared with 2021. Garments exports increased by 14.7% year-on-year to approximately US\$37.6 billion in 2022.

### **BUSINESS REVIEW**

With widespread vaccination and the relaxation of pandemic prevention policies around the world, the global economy has gradually emerged from the gloom of the novel coronavirus variant. However, due to the combined impacts of the Russia-Ukraine tension, high global inflation and aggressive interest rate hikes by central banks, demand from the textile industry has decreased since the second quarter, and the global economy slowed down extensively in 2022. For the Group, revenue in 2022 decreased to approximately RMB23.8 billion, a decline of 10.2% as compared with the previous year. During the Year, the Group’s revenue was mainly derived from the sale of yarns, grey fabrics, garment fabrics and garments, which covered the entire industry chain. Revenue from the sale of yarns remained the primary source of the Group’s revenue, accounting

for approximately 73.9% of the Group's total revenue for the Year. Revenue from yarn sales amounted to approximately RMB17,587.5 million, representing a decrease of 13.8% when compared with the previous year, mainly due to the lower sales volume from weak demand. Also due to weaker demand and destock pressure as elaborated below, revenue from garment fabrics decreased to approximately RMB3,514.3 million, down 2.7% when compared with the previous year.

In 2022, although the economies of various countries around the world gradually emerged from the gloom of the epidemic, as cotton prices remained high from the beginning of the year until May 2022, the textile industry generally maintained high inventory levels to cope with the continued rise in prices of raw materials. Since the second half of the year, in the face of global inflation and central banks' tightening monetary policies of various nations resulting in a slowdown in demand, the textile industry was generally facing pressure of destocking and material costs were at relatively high levels. The yarn business, as an upstream industry of the textile industry, was the first to be affected by the slowdown in demand as the midstream and downstream industries were generally under pressure to destock. In view of the macroeconomic changes, the Group actively adjusted its product categories and structure to ensure its continued production, and actively eliminated inventory on the sales side, resulting in a final yarn sales volume of about 657,000 tonnes for the Year, representing a decrease of approximately 19.7% as compared with the previous year. Due to pressure to destock and weaker demand in the textile industry, the annual revenue of yarns for the Year decreased by 13.8% to approximately RMB17,587.5 million as compared with the previous year. Affected by the decline in raw material price and selling price as well as the weakened demand in midstream and downstream markets, coupled with poor logistics and short-term shutdowns in the PRC domestic market due to epidemic control measures, the Group was unable to fully utilize its yarn spindle scale of approximately 4.17 million spindles, resulting in a decrease in the gross profit margin of yarns to 10.6% for the Year.

As for grey fabrics, the sales volume during the Year was approximately 50.3 million metres, a slight decrease of 6.5% as compared with the previous year. Benefiting from the adjustment of grey fabric varieties and the increase in raw material prices, sales revenue of grey fabrics increased by 23.7% to approximately RMB728.0 million despite the slight decrease in sales volume. However, due to the impact of relatively higher raw material prices, the gross profit margin of grey fabrics decreased to 10.2%.

Similarly, for woven garment fabrics, production volume and sales were both under pressure due to downstream destocking and lower demand, and the sales volume during the Year decreased by 15.2% to 116.3 million metres. Benefiting from the quality advantages of woven garment fabrics and the wide recognition by brand customers, the increase in raw material prices can be effectively transferred to clients. In addition, woven garment fabrics are traded in U.S. dollars and the appreciation of the U.S. dollar

against Renminbi during the Year resulted in an increase of woven garment fabric prices in 2022 with an increase of sales revenue by 3.0% to approximately RMB2,647.9 million. Likewise, the gross profit margin climbed to 24.6% from 23.1% in 2021.

For knitted garment fabrics, the domestic sales market shrank significantly due to the epidemic control measures and lockdown in Shanghai and Guangzhou during the peak season for domestic orders in the PRC. Coupled with the slowdown in demand from overseas markets due to inflation, the sales volume of knitted garment fabrics decreased to approximately 15,000 tonnes from approximately 18,000 tonnes in previous year, and sales revenue decreased by 16.8% to approximately RMB866.4 million for the Year. The new factory in Vietnam was in the trial production stage in the first half of 2022, which had an impact on the gross profit margin in a considerable extent. Additionally, fewer orders were placed, so that the production capacity could not be fully utilized, resulting in a lower gross profit margin of 5.3% for the Year.

The jeanswear business generated sales revenue of approximately RMB91.3 million, mainly from the sales business of garment factories in the PRC. At the end of 2021, the Group sold a garment factory in Vietnam to a joint venture partner, resulting in a decrease in overall sales of jeanswear in 2022 by approximately RMB581.1 million as compared with the previous year. Due to the impact of higher raw material prices and shutdowns caused by domestic outbreaks, the gross profit margin was approximately 3.7%.

For the trading business, it mainly represented our U.S. garment fabrics and garments trading business. Gross profit margin was approximately 7.1%.

The non-woven fabrics business is still in its initial stage, with sales revenue in 2022 amounting to approximately RMB62.1 million. The sales revenue was lower compared to the previous year, mainly due to the frequent domestic COVID-19 outbreaks and weak market demand in the textile industry. Currently, the Group is actively developing further strategic cooperation with well-known customers in the industry, and aims to achieve significant progress in 2023.

Based on the above analysis, mainly affected by the decline in raw material price and product selling price as well as the weaker market demand for yarns in 2022 as compared to previous year, coupled with poor logistics, short-term shutdowns due to the domestic epidemic and rising logistics costs, the overall gross profit margin of the Group decreased to 11.6% from 22.1% in 2021. Coupled with the rising interest costs and the exchange losses, profit attributable to shareholders for the Year was approximately RMB156.8 million, representing a decrease of 94.2% as compared with the previous year. Basic earnings per share were RMB0.17, representing a decrease of 94.2% as compared with the previous year.

## PROSPECTS

As of 31 December 2022, the Group's major production facilities consist of approximately 4.17 million spindles, over 2,100 weaving and knitting machines and related dyeing equipment, of which 2.44 million spindles were in the PRC and 1.73 million spindles were located overseas. For the global textile market, lockdown and control on pandemic prevention in the PRC and Russia-Ukraine tension led to a surge in commodities prices, which in turn triggered global inflation. As such, demand had severely weakened in the second half of 2022 with supply exceeding demand in the short term. With the upward adjustment of interest rates in the United States coming to an end, inflation is expected to be gradually alleviated in the first half of 2023, and the high levels of inventory in the textile industry is expected to be resolved in the first half of 2023. In addition, with the full relaxation of pandemic prevention and control measures in the PRC since January 2023, it is believed that demand will gradually pick up in the first half of 2023 and the Group's profit margin would in turn achieve a better improvement in the second half year of 2023.

In 2022, the overall situation of the textile industry fluctuated against the backdrop of global inflation. High raw material cost and some adjustments to Sino-U.S. trade policies brought both challenges and opportunities to the Group. In 2023, the Group will further adjust its product structure and market regions through reorganization, and aims to further reduce production and administration costs and improve management efficiency via equipment upgrades and the establishment of platform-oriented functional business departments. Based on current market conditions, and excluding the sales volume of the trading business, the Group targets to sell 750,000 tonnes of yarns, 110 million meters of woven garment fabrics and 24,000 tonnes of knitted garment fabrics in 2023.

In terms of new investment, the Group will adopt an active plan and a relatively conservative strategy. Equipped with near-finished 230,000 spindles by the end of 2022, the production facilities of the Group will reach approximately 4.40 million spindles. The Group also aims to strengthen cooperation with industry leaders in the garment fabrics and non-woven fabrics business to strengthen its overall product quick reaction capability and gain further access to the industry chain for boosting sales revenue. In 2023, the Group will actively deploy restructuring of production facilities. It is expected to receive certain amount of proceeds from asset disposal, as well as the compensation from the government for demolition and relocation. Currently, the Group's on-going projects mainly include the construction of a yarn factory in Turkey and the production base in America including the factories for yarns and woven fabrics, the first phase of which is aimed to be completed by the end of 2023. With the commencement of the operation of the new production base in America, coupled with existing factories in America, it aims to establish an industry cluster with the cooperation of industry partners to achieve economies of scale with which logistics costs can be reduced and the Group's overall profitability can be improved.

On 12 July 2022, the Group continued to be included in the “Fortune 500 Chinese Companies 2022” list, which is a testament to the Group’s growth and widespread recognition. The Group will continue to work tirelessly to bring long-term and sustainable returns to its shareholders.

With the above adjustment strategies and business development plans, the Group prepares itself to respond to market changes and seize new opportunities while maximizing its use of resources and production capacity, thereby preserving and generating value to the shareholders of the Company.

## FINANCIAL REVIEW

### Sales

During the Year, the sales of the Group mainly comprised the sales of yarns, grey fabrics, non-woven fabrics, garment fabrics, as well as jeanswear. Yarns continued to be the Group’s major product. Given the decrease in sales volume of yarns, the revenue of yarns in 2022 decreased by approximately 13.8% as compared to that of 2021. Sales analyses of the Group by products are shown below.

	<b>2022</b>	2021	Revenue change
	<b><i>RMB’000</i></b>	<i>RMB’000</i>	
Stretchable core-spun yarns	<b>8,865,690</b>	10,292,499	-13.9%
Other yarns	<b>8,721,760</b>	10,107,339	-13.7%
Grey fabrics	<b>727,980</b>	588,442	23.7%
Woven garment fabrics	<b>2,647,893</b>	2,570,170	3.0%
Knitted garment fabrics	<b>866,442</b>	1,041,746	-16.8%
Jeanswear	<b>91,344</b>	672,485	-86.4%
Trading	<b>1,822,180</b>	1,125,067	62.0%
Non-woven fabrics	<b>62,065</b>	123,445	-49.7%
	<hr/>	<hr/>	<hr/>
Total	<b><u>23,805,354</u></b>	<u>26,521,193</u>	<u>-10.2%</u>

	Sales volume		Selling price		Gross profit margin	
	2022	2021	2022	2021	2022	2021
Stretchable core-spun yarns (Tonne/RMB per tonne)	<b>316,867</b>	395,914	<b>27,979</b>	25,997	<b>15.6%</b>	22.6%
Other yarns (Tonne/RMB per tonne)	<b>340,296</b>	422,433	<b>25,630</b>	23,926	<b>5.6%</b>	24.0%
Grey fabrics (Million metres/ RMB per metre)	<b>50.3</b>	53.8	<b>14.5</b>	10.9	<b>10.2%</b>	29.7%
Woven garment fabrics (Million metres/RMB per metre)	<b>116.3</b>	137.2	<b>22.8</b>	18.7	<b>24.6%</b>	23.1%
Knitted Garment fabrics (Tonne/RMB per tonne)	<b>14,991</b>	17,740	<b>57,797</b>	58,723	<b>5.3%</b>	16.0%
Jeanswear (Million pieces/ RMB per piece)	<b>1.7</b>	10.6	<b>53.7</b>	63.4	<b>3.7%</b>	13.3%
Non-woven fabrics (Tonne/RMB per tonne)	<b>3,156</b>	6,452	<b>19,666</b>	19,133	<b>-32.0%</b>	-12.4%

The Chinese textile market is the Group's major market, and accounted for 61.7% of our total sales of 2022. With the gradual recovery of overseas markets from the impact of the pandemic, the percentage for our overseas sales has increased in 2022.

As at the date of this annual results 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 top ten largest customers of the Group only accounted for 15.8% of the total sales of the Group for the year ended 31 December 2022.

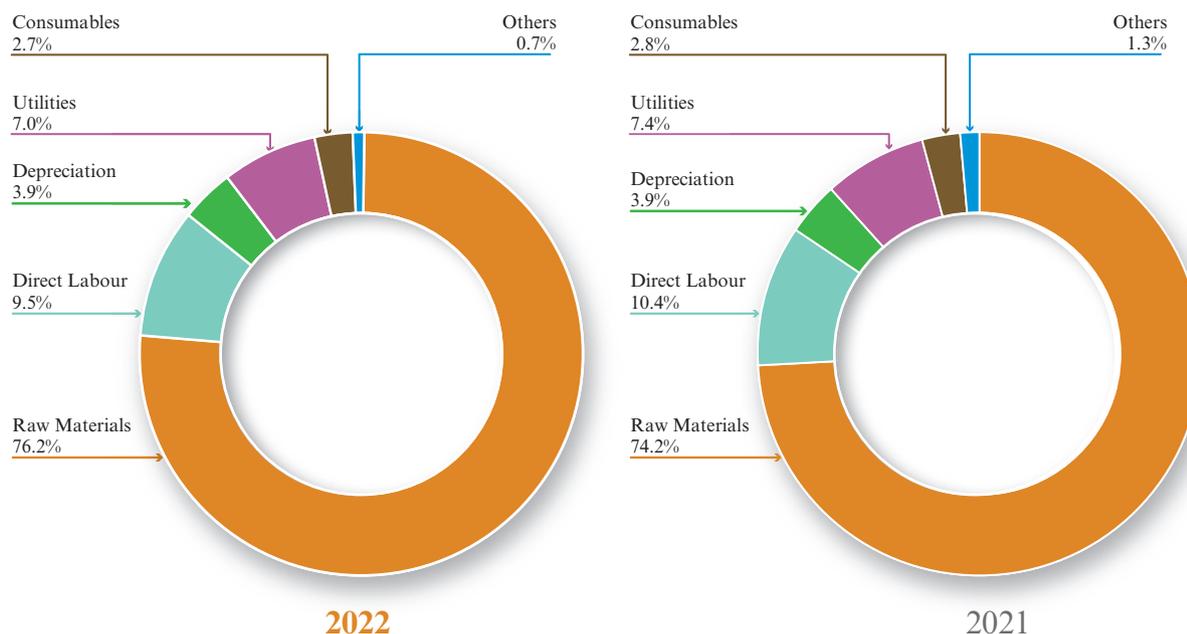
### Gross profit and gross margin

For the year ended 31 December 2022, gross profit of the Group decreased from RMB5,852.0 million for 2021 to RMB2,755.6 million for 2022. The overall gross profit margin decreased by 10.5 percentage points to 11.6% as compared to that of 2021, mainly as a result of the decrease in the gross profit of the yarns business.

### Cost structure

For the year ended 31 December 2022, cost of sales rose by 1.8% to RMB21,049.7 million when compared with 2021. Raw materials cost accounted for about 76.2% of the total cost of sales of 2022. Cotton is our major raw material.

The breakdown of our cost of sales in 2022 and 2021 is shown below:



### Selling and distribution costs

For the year ended 31 December 2022, the Group's selling and distribution costs amounted to approximately RMB886.4 million, representing a decrease of 7.3% when compared to that of 2021. It was mainly due to a decrease in the costs of freight as a result of the significant decrease in sales volume of yarns.

### General and administrative expenses

For the year ended 31 December 2022, the Group's general and administrative expenses amounted to approximately RMB1,316.1 million, which represented a decrease of 9.3% when compared with 2021, and accounted for 5.5% of the Group's revenue. The decrease was mainly due to the decrease in salaries of management personnel.

## Cash flows

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Net cash generated from operating activities	<b>1,620,127</b>	2,441,604
Net cash used in investing activities	<b>(1,725,984)</b>	(2,362,774)
Net cash used in financing activities	<b>(30,664)</b>	(257,036)
Effect of foreign exchange rate changes	<b>99,535</b>	—
Cash and cash equivalents at end of the year	<b><u>2,468,421</u></b>	<u>2,505,407</u>

For the year ended 31 December 2022, net cash generated from operating activities of the Group amounted to approximately RMB1,620.1 million, which represents a decrease comparing with 2021 mainly due to the significant decrease in the gross profit margin of the Group in 2022. Net cash used in investing activities amounted to approximately RMB1,726.0 million, which was mainly used for the payment of the new production capacity and equipment renovation of yarns and garment fabrics in the PRC, Vietnam and the Americas during the Year. During the Year, net cash used in financing activities amounted to approximately RMB30.7 million, which was mainly due to the adjustment of debt structure by the Group via increasing the amount of low-cost Renminbi short-term loan in replacement of letter of credit in U.S. dollar.

## Liquidity and financial resources

As at 31 December 2022, the Group's bank and cash balances (including pledged bank deposits) amounted to approximately RMB2,580.1 million (as at 31 December 2021: RMB2,695.7 million). As at 31 December 2022, inventories and trade and bills receivables (including financial assets at fair value through other comprehensive income) of the Group increased by approximately RMB438.4 million to approximately RMB7,590.1 million and decreased by approximately RMB275.9 million to approximately RMB1,743.8 million respectively (as at 31 December 2021: approximately RMB7,151.7 million and approximately RMB2,019.7 million respectively). Turnover days for inventories and trade and bills receivables were 126 days and 28 days respectively, compared to 95 days and 25 days in 2021 respectively. The inventory turnover days significantly increased from last year, mainly due to the sharp decrease in market demand and thus the increase in inventory of finished products in the second half of 2022. The turnover days for trade and bills receivables were slightly higher than that of the previous year, which was mainly because of the increase in letter of credit receivables from overseas customers due to the increase in overseas sales in 2022.

Trade and bills payables of the Group increased by approximately RMB21.1 million to approximately RMB4,597.5 million as at 31 December 2022 (as at 31 December 2021: RMB4,576.3 million), the payable turnover days was 78 days, compared to 63 days in 2021. The increase in trade and bills payables was mainly attributable to the increase in the purchase unit price of raw materials in 2022 as compared to that in 2021. Since the balance of trade and bills payables as at the end of 2020 was relatively low, the average balance of trade and bills payables in 2022 was significantly higher than that in 2021, and thus the turnover days for trade and bills payables significantly increased from that in 2021.

The total bank borrowings of the Group increased by approximately RMB1,328.3 million to approximately RMB8,543.4 million as at 31 December 2022. Current bank borrowings increased by approximately RMB1,323.5 million to approximately RMB5,155.2 million while non-current bank borrowings increased by approximately RMB4.8 million to approximately RMB3,388.2 million. Non-current bank borrowings as at 31 December 2022 had no significant change as compared to 31 December 2021.

As at 31 December 2022 and 2021 the key financial ratios of the Group were as follows:

	<b>2022</b>	2021
Current ratio	<b>1.12</b>	1.29
Debt to equity ratio <sup>1</sup>	<b>0.90</b>	0.72
Net debt to equity ratio <sup>2</sup>	<b>0.63</b>	0.45
Gearing ratio <sup>3</sup>	<b>0.61</b>	0.57

<sup>1</sup> Based on total borrowings over equity attributable to shareholders

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

<sup>3</sup> Based on total liabilities over total assets

## **Borrowings**

As at 31 December 2022, the Group's total bank borrowings amounted to approximately RMB8,543.4 million, among which approximately RMB3,495.2 million (40.9%) was denominated in Renminbi, approximately RMB2,444.8 million (28.6%) was denominated in U.S. dollars ("US\$" or "USD"), approximately RMB2,597.6 million (30.4%) was denominated in Hong Kong dollars ("HK\$" or "HKD") and approximately RMB5.8 million (0.1%) was denominated in Australian dollars ("AUD"). These bank borrowings have borne interest rates ranging from 0.80% to 7.23% per annum (2021: 0.80% to 5.05%).

As at 31 December 2022, the Group had outstanding current bank borrowings of approximately RMB5,155.2 million (2021: approximately RMB3,831.7 million). The increase in current bank borrowings was mainly because of the adjustment of debt structure by the Group via using the amount of low-cost Renminbi short-term loan in replacement of letter of credit in U.S. dollar.

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

As at 31 December 2022, bank borrowings of approximately RMB5.8 million were secured by bank deposits with a net book amount of approximately RMB6.0 million, and bank borrowing of RMB200,000,000 were secured by export tax rebates entitled to be collected.

As at 31 December 2021, bank borrowings of approximately RMB40.0 million were secured by the Group's buildings with a net book amount of approximately RMB164.4 million and land use rights with a net book amount of approximately RMB34.4 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 Renminbi, 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 part of its foreign currency exposure is hedged.

### **Capital expenditure**

For the year ended 31 December 2022, the capital expenditure of the Group amounted to approximately RMB2,391.0 million (2021: approximately RMB2,346.6 million). It mainly related to the development of new production capacity of yarns and garment fabrics and equipment renovation in China, Vietnam and the Americas during the Year.

### **Contingent liabilities**

As at 31 December 2022, the Group had no material contingent liabilities.

## **Human resources**

As at 31 December 2022, the Group had a total workforce of 30,206 employees (as at 31 December 2021: 33,639), of whom 17,359 employees were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 12,847 employees were stationed in regions outside Mainland China, including Vietnam, Turkey, the Americas, Hong Kong Special Administrative Region of the PRC and Macao Special Administrative Region of the PRC. The Group will continue to optimize its human resources structure and offer a competitive remuneration package to its employees, making reference to factors including the prevailing market conditions and the performance of the Group and the merits of the employees regardless of their gender, race, age or creed. 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. An interim dividend of 38 HK cents per ordinary share was paid on 14 October 2022. In the second half of 2022, the Group's results were affected by the decline in raw material price and product selling price as well as the weakened demand on yarn. The Board does not recommend a payment of final dividend for the year ended 31 December 2022.

## **Events after the Reporting Period**

### ***Change of Company name***

Pursuant to a special resolution passed at an extraordinary general meeting held on 28 December 2022 and the issue of the Certificate of Incorporation on Change of Name issued by the Registrar of companies in the Cayman Islands on 4 January 2023, the English name of the Company has been changed from "Texhong Textile Group Limited" to "Texhong International Group Limited" and the dual foreign name of the Company in Chinese has been changed from "天虹紡織集團有限公司" to "天虹國際集團有限公司" with effect from 4 January 2023.

### ***Latest developments regarding acquisition of assets in Vietnam***

As announced by the Company on 7 November 2022, 8 December 2022 and 3 February 2023 and the circular of the Company dated 9 December 2022, a wholly-owned subsidiary of the Company entered into an asset purchase agreement (the “Asset Purchase Agreement”) with Texhong Industrial Park Vietnam Limited for the acquisition (the “Acquisition”) of certain parcels of land located inside Texhong Haiha Industrial Park and certain infrastructure erected thereon. Completion of the Acquisition is subject to the fulfilment of the conditions precedent set out in the Asset Purchase Agreement. The last outstanding condition precedent, being the obtaining of the land use right certificate for the land comprising Land Lot 2 (as defined in the circular of the Company dated 9 December 2022), has been fulfilled on 24 March 2023. As such, the parties to the Asset Purchase Agreement have scheduled for completion of the Acquisition to take place on 31 March 2023 and consequently, the continuing connected transactions announced by the Company on 3 February 2023 will also cease immediately upon completion of the Acquisition on 31 March 2023.

### **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 2022.

### **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 currently comprises three 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 Part 2 of Appendix 14 to the Listing Rules. During the year ended 31 December 2022 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 2022 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 2022.

### **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 currently 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 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 2022 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 International Group Limited**  
**Hong Tianzhu**  
*Chairman*

Hong Kong  
28 March 2023

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

*Executive Directors:*

Mr. Hong Tianzhu  
Mr. Zhu Yongxiang  
Mr. Tang Daoping

*Independent non-executive Directors:*

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