



On behalf of the board of directors (the "Board") of the Group, I am pleased to present to our shareholders the Group's annual results for the year ended 31 December 2005.

RESULTS

2005 was the first full financial year after the Group's IPO, and we are pleased to report satisfactory performance for the year in line with our business development plans. The Group's turnover increased by 35.3% to approximately RMB1,916 million. Profit for the year increased by 31.5% to approximately RMB180.2 million. Earnings per share were RMB0.21, compared to RMB0.19 in 2004.

本人謹代表董事會（「董事會」）欣然向股東提呈本集團截至二零零五年十二月三十一日止年度之全年業績。

業績

二零零五年為本集團上市以後的第一個全年財政年度。我們欣然取得滿意的表現，充分反映了本集團業務發展及計劃的成功。本集團營業額上升35.3%至約人民幣1,916,000,000元，年度溢利增長31.5%至約人民幣180,200,000元，每股盈利為人民幣0.21元，二零零四年則為人民幣0.19元。

DIVIDEND

The Board recommended a final dividend of HK\$0.065 per share in respect of the financial year ended 31 December 2005. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the dividend for the year represents a 33% payout of the net profit for the year.

BUSINESS REVIEW

2005 was a roller-coaster year for the textile industry in China, the unstable market environment has an impact on most of the export oriented textile and garment manufacturers and brought challenges to the PRC textile industry. The Group, well positioned as the upstream supplier of high value-added core-spun cotton textile products in China, was not severely affected by the safeguard measures placed on China by the US and the EU. Instead, the Group further enhanced its market position as a specialist in the core-spun cotton textile sector. During the year, the Group entered into a cooperative agreement with DOW Chemical for the application of DOW XLA fiber in core-spun yarn products.

During the year, the Group's "quick-response" flexible operation strategy and high quality products have further gained recognition and orders from customers. Sales of yarn increased substantially by 76.4% to RMB947.9 million and sales of fabrics increased by 12.1% to RMB944.1 million.

To cope with the growing number of orders and to achieve economies of scale, the Group continued to expand its production capacity by leasing production facilities and organic expansion in 2005. Currently, the Group has 10 production bases, spanning across Xuzhou, Taizhou and Nantong of Jiangsu Province and Jinhua of Zhejiang Province with total gross floor area of 747,500 sq m. As the Group continued to proactively expand its yarn production capacity, the number of spindles exceeded 400,000 as at 31 December 2005, with an estimated annual production capacity of yarn reaching 80,000 tonnes. In addition, the Group has over 1,000 shuttleless looms with an annual production capacity of over 90 million meters of grey fabrics.

股息

董事會建議派發截至二零零五年十二月三十一日止財政年度之末期股息每股0.065港元，待股東於即將舉行的股東週年大會上批准，本年度派發的股息佔純利33%。

業務回顧

二零零五年是中國紡織行業極為波動之年，不穩定的市場環境打擊了大部份以出口為主的紡織及成衣生產商，為整個中國紡織行業帶來新的挑戰。本集團作為中國高附加值棉包芯上游紡織品供應商，並無嚴重受到來自美國及歐盟對中國實施「特保措施」的影響。反之，本集團更提升了於棉包芯紡織行業內的專業地位。年內，本集團與陶氏化學達成合作協議，將DOW XLA纖維應用於棉包芯紗線產品之中。

年內，本集團「快速反應」的靈活營運策略以及優質的產品繼續得到客戶的肯定和支持，紗線的銷售額大幅上升76.4%至人民幣947,900,000元，坯布及色布的銷售額增加12.1%至人民幣944,100,000元。

為迎接不斷湧現的訂單，以及爭取規模效益，本集團於二零零五年繼續透過租賃生產設施及自身擴張提升生產能力。目前，本集團的生產基地已擴充至10個，分別位於江蘇省徐州、泰州及南通，以及浙江省金華。生產基地總佔地面積達到747,500平方米。隨著本集團積極擴大紗線生產能力，使紗錠數目於二零零五年十二月三十一日已超過400,000個，估計紗線年產能達到80,000噸；此外，本集團無梭織機數目超過1,000台，坯布年產能超過90,000,000米。

The Group continued to implement its product differentiation strategy in 2005 with innovative new core-spun cotton textile products including spandex stretch and other quality elastic yarn and grey fabrics. Capitalising on the Group's expertise in new product development and extensive customer recognition, those high-end new products such as core spun yarn with DOW XLA elastic fiber have gradually commenced commercialised production in 2005.

Furthermore, the Group established Texhong (China) Investment Co., Ltd. in Shanghai as its regional headquarter in China, teamed with well diversified professional management, the Group has successfully centralized sales and marketing, logistics and purchasing, financial management and human resources management on Group basis, with each manufacturing subsidiaries as a cost center focusing on enhancing labor productivities and quality. We believe that the Group has established an international standard operating platform providing core resources for the Group's further expansion.

OUTLOOK

Following the signing of the textile agreement between the US and the PRC governments on 8 November 2005, it is believed that 2006 will be relatively stable for the PRC textile industry. However, potential threats arising from trade protectionism and international trade disputes on textile and garment products are likely to continue and may impact on the PRC textile industry in the near future, Columbia has recently commenced anti-dumping investigation in January 2006. In addition, the rapid growth of textile industries in developing countries such as India and Pakistan poses challenges to PRC's textile manufacturers. All of these will accelerate the consolidation of the textile industry in the PRC, which will further enhance the competitiveness and economies of scale of large-scale textile enterprise. It is also believed that those most competitive PRC textile manufacturers will actively explore quota-free overseas markets and other international markets by leveraging on the trading platforms and textile expertises in Hong Kong and other regions.

二零零五年本集團繼續差異化產品發展策略，生產創新的棉包芯紡織產品包括氨綸彈力及其他優質彈力紗線及坯布。全賴本集團對新產品開發的專業技術，以及客戶對新產品的認同，該等全新系列的高端產品如棉包DOWX LA彈性纖維紗線已於二零零五年逐漸投入商業化生產階段。

此外，本集團於上海成立天虹（中國）投資有限公司，作為其於中國的總部，並組成了多元化的專業管理團隊。本集團成功整合了整個集團層面的中央銷售、市場推廣、物流、採購，以及財務及人事管理，令各生產子公司可以專注提升生產力及員工質素，擔當成本中心的角色。我們相信本集團已建立國際標準的操作平台，為本集團進一步發展提供核心動力資源。

未來展望

隨著二零零五年十一月八日中美雙方簽定紡織貿易協議，相信二零零六年中國紡織行業將趨向穩定發展。不過，紡織品及成衣之貿易保護措施和國際貿易磨擦所帶來之潛在威脅將於不久之將來繼續影響中國紡織行業，例如哥倫比亞於二零零六年一月份開始展開反傾銷調查。加上發展中國家如印度及巴基斯坦等紡織業的崛起，使中國紡織企業面臨更大的市場挑戰。然而這將加速中國紡織行業的整合，進一步提升大型紡織企業的競爭力及規模效益。此外，相信中國最具競爭力的紡織企業將積極開拓沒有配額限制的海外市場，同時借助香港及其他地區的貿易平台及紡織專才開拓國際市場。

Looking ahead, China will remain as the Group's core market and it is expected that the sales in China will attain outstanding increase due to the rapid growth in consumption power. Being one of the top 20 most competitive cotton textile manufacturers in China and a leading enterprise of core-spun cotton textile products, the Group is confident that, in 2006, its market position will be further enhanced in line with its expansion plans.

In addition, the Group will implement "3+1" partnership strategy to build up a partnership relationship with certain garment manufacturers and brand retailers and to enhance its competitiveness in export markets by introducing international talents and European designers for its garment fabrics business. Leveraging on the Group's reputable product quality, it is expected that the garment fabrics export business will achieve robust growth and extend its geographical reach. In view of the possible international textile trade disputes, the Group will keep a close eye on the latest development of the export market, and at the same time, explore other market opportunities in quota free areas, such as establishing strategic partnership with some Asean Countries and tapping into the garment market in Asia. In the long run, Texhong Textile is committed to becoming a leading vertically integrated cotton textile supplier in the international market.

Positioned as one of the leading core-spun cotton textile manufacturers in China, the Group will continue to expand its upstream yarn production capacity in the coming years to achieve high operational efficiency through economies of scale. As the Group has expanded substantially in the yarn production capacity in 2005, it is expected that the newly added production capacity will contribute and leading to an impressive growth for the Group in 2006. The weighted average number of spindles in 2006 will exceed 400,000, resulting in a drastic increase of 48% in the production capacity of yarn as compared to the weighted average of 270,000 in 2005. Besides, the Group will maintain its flexible strategies to expand its operating scale by seeking for more opportunities of low cost acquisition and organic expansion, with a target yarn production capacity of 550,000 spindles by the end of 2006.

展望未來，本集團將繼續以中國為主要核心市場，預期未來於中國的銷售量將隨著本土消費力的迅速提升而得到顯著增長。作為中國二十強最具競爭力棉紡織生產商，以及棉包芯紡織產品的領先企業，隨著積極的規模擴張計劃，本集團有信心二零零六年的市場地位將可獲得進一步的提升。

另外，本集團將採取「3+1」策略，與若干成衣製造商及品牌零售商建立夥伴關係，並引入面料方面的國際專才及歐洲設計師，使本集團於出口市場上更具競爭力。憑藉本集團超卓的產品質素，相信面料出口業務將繼續得到顯著的發展，並可推廣至更多市場。有見國際紡織貿易可能存在的紛爭，本集團將繼續密切留意出口市場的最新發展，並同時在無配額限制地區發掘其他市場商機，包括在部份東盟國家建立戰略性合作伙伴，拓展亞洲服裝廠的面料市場。長遠來說，天虹紡織將致力成為國際市場上領先的縱向整合棉紡織供應商之一。

作為中國領先的棉包芯紡織生產企業之一，本集團將於未來繼續擴充紗線生產能力，利用規模效益達到更有效的經營效率。相信本集團於二零零五年大幅增加紗線產能將帶動本集團於二零零六年取得顯著的增長。預期加權平均紗錠數目將由二零零五年的270,000個增加至二零零六年的超過400,000個，使平均紗線產能較二零零五年提升48%。同時，本集團將維持一貫的靈活經營策略，物色更多低成本收購及自身擴張的機會，目標於二零零六年年底，將紗線產能提升至550,000個紗錠。

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere thanks to all the shareholders for their continuous support. Also, I would like to take this opportunity to thank all our dedicated staff members for their valuable contribution during the year.

Hong Tianzhu
Chairman

Hong Kong
3 April 2006

致意

最後，本人謹代表董事會向全體股東致以衷心的謝意，感謝他們一直以來對集團的鼎力支持，並對全體員工於過去一年為集團所作的寶貴貢獻致意。

主席
洪天祝

香港
二零零六年四月三日