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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

FINANCIAL HIGHLIGHTS

- Turnover increased by 22.0% to RMB3,254.1 million
- Net profit increased by 24.8% to RMB237.8 million
- Earnings per share increased by 22.7% to RMB0.27
- Proposed final dividend of HKD0.075 per share
- Successfully expanded to Vietnam, the Group's yarn capacity increased to over 600,000 spindles
- Ranked by China National Textile Industry Council as the 5th largest cotton textile manufacturer in China in terms of sales in 2007

The board (the "Board") of directors (the "Directors") of Texhong Textile Group Limited ("Texhong" or 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 2007, together with the comparative figures in 2006.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Note	2007 RMB'000	2006 RMB'000
Sales	2	3,254,109	2,667,216
Cost of sales	4	(2,819,358)	(2,264,353)
Gross profit		434,751	402,863
Selling and distribution costs	4	(75,851)	(64,849)
General and administrative expenses	4	(144,390)	(110,817)
Other income	3	21,673	17,365
Other gains/(losses) – net	3	43,109	(1,756)
Operating profit		279,292	242,806
Finance income		3,594	4,431
Finance costs		(23,457)	(32,443)
Finance costs – net	5	(19,863)	(28,012)
Share of profit of an associate		3,178	–
Profit before income tax		262,607	214,794
Income tax expense	6	(24,830)	(24,258)
Profit for the year, attributable to equity holders of the Company		237,777	190,536
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– basic	7	0.27	0.22
– diluted	7	0.27	0.22
Dividends	8	62,073	60,949

CONSOLIDATED BALANCE SHEET

As at 31 December

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Land use rights		104,622	70,519
Property, plant and equipment		1,187,543	824,057
Goodwill		–	888
Investment in an associate		43,799	–
Deferred income tax assets		3,607	3,879
		1,339,571	899,343
Current assets			
Inventories		651,899	450,722
Trade and bills receivables	*9*	364,832	227,452
Prepayments, deposits and other receivables		78,440	98,099
Pledged bank deposits		10,773	14,397
Cash and cash equivalents		199,615	139,887
		1,305,559	930,557
Current liabilities			
Trade and bills payables	*10*	467,502	270,549
Accruals and other payables		155,637	171,786
Current income tax liabilities		7,325	1,704
Borrowings		225,253	308,538
		855,717	752,577
Net current assets		449,842	177,980
Total assets less current liabilities		1,789,413	1,077,323
Non-current liabilities			
Borrowings		702,584	204,458
Deferred income tax liabilities		11,078	11,216
		713,662	215,674
Net assets		1,075,751	861,649
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		93,990	92,842
Reserves		981,761	768,807
Total equity		1,075,751	861,649

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Group is principally engaged in the manufacture and sale of yarn, grey fabrics and dyed fabrics.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 9 December 2004.

The financial information is presented in Renminbi ("RMB"), unless otherwise stated.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, which are carried at fair value.

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

(a) Standards, amendment and interpretations effective in 2007

In 2007, the Group adopted the HKFRS, Hong Kong Accounting Standards ("HKAS") and HK(IFRIC) – Interpretations below, which are effective for accounting periods beginning on or after 1 January 2007 and relevant to its operations. The impacts on the Group's accounting policies are set out below.

HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduce quantitative and qualitative disclosures relating to financial risks and credit quality of financial instruments and discussion of capital management strategy.

HK(IFRIC) – Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives".

(c) Standards, amendments and interpretations to existing standards that are not yet effective in 2007 and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009. The amendment has no material impact on the Group's accounting policies as the Group's existing accounting policy on borrowing costs complies with the amended requirements.

HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009 but it is not expected to have any significant impact on the presentation of the Group's segment information.

HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRS. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010.

(d) Standards, amendments and interpretations to existing standards that are not yet effective in 2007 and not relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations.

- HK(IFRIC) – Int 11, "HKFRS 2 –Group and treasury share transactions", effective from 1 March 2007.
- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1 January 2008).
- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1 July 2008).
- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008).
- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009).
- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009).

2. SALES AND SEGMENT INFORMATION

(i) Sales

The Group is principally engaged in the manufacture and sale of yarns, grey fabrics and dyed fabrics. Sales recognised during the year represented sales of goods, net of value-added tax.

(ii) Segment information

(a) Primary reporting – business segments

As at 31 December 2007, the Group operated in one business segment – manufacturing and sale of yarn, grey fabrics and dyed fabrics. Accordingly, no analysis of the business segment information is presented.

(b) Secondary reporting format – geographical segments

The Group mainly operates in two main geographical areas, Mainland China and Vietnam.

The Group's sales is generated mainly within Mainland China and Vietnam.

	2007 *RMB'000*	**2006** *RMB'000*
Sales		
Mainland China	3,254,074	2,702,776
Vietnam	45,185	–
Other countries	371,947	93,115
	3,671,206	2,795,891
Inter-segment sales	(417,097)	(128,675)
	3,254,109	2,667,216

Sales is allocated based on the country in which the customer is located.

	2007	2006
	RMB'000	*RMB'000*
Segment results		
Mainland China	296,526	242,734
Vietnam	(3,943)	(1,743)
Other countries	3,527	4,806
Unallocated income less expense	(16,818)	(2,991)
Operating profit	279,292	242,806

Segments results are allocated based on where the profits arise.

	2007	2006
	RMB'000	*RMB'000*
Total assets		
Mainland China	2,082,873	1,689,803
Vietnam	459,927	131,010
Other countries	27,369	6,840
Unallocated assets	74,961	2,247
	2,645,130	1,829,900

Total assets are allocated based on where the assets are located.

	2007	2006
	RMB'000	*RMB'000*
Capital expenditure		
Mainland China	193,134	221,764
Vietnam	309,057	11,445
	502,191	233,209

Capital expenditure is allocated based on where the assets are located.

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

	2007	2006
	RMB'000	*RMB'000*
Other income		
Return of income tax relating to re-investment	3,265	–
Subsidy income	18,408	17,365
	21,673	17,365
Other gains/(losses) – net		
Net foreign exchange loss	(3,813)	(2,947)
Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary	38,894	–
Others	8,028	1,191
Total other gains/(losses) – net	43,109	(1,756)

4. EXPENSES BY NATURE

	2007	2006
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	(68,582)	(35,801)
Raw materials and consumables used	2,440,525	1,971,964
Employment costs	276,040	203,065
Depreciation and amortisation	73,609	57,670
Office expense	30,206	30,095
Utilities	167,565	125,543
Transportation	57,265	41,776
Auditor's remuneration	3,820	3,516
Lease rental expense of buildings and machinery	8,634	3,960
Other expenses	50,517	38,231
Total cost of sales, selling and distribution costs and general and administrative expenses	3,039,599	2,440,019

5. FINANCE COSTS – NET

	2007	2006
	RMB'000	*RMB'000*
Interest expense:		
Bank borrowings wholly repayable within five years	60,282	40,235
Less: amount capitalised in property, plant and equipment	(2,524)	(1,784)
	57,758	38,451
Exchange gain on financing activities	(34,301)	(6,008)
Finance costs	23,457	32,443
Finance income – Interest income on short-term bank deposits	(3,594)	(4,431)
Net finance costs	19,863	28,012

6. INCOME TAX EXPENSE

The amount of taxation charged to the consolidation income statement represents:

	2007 *RMB'000*	**2006** *RMB'000*
Current income tax		
– Mainland China enterprise income tax	26,444	25,237
Deferred income tax	(1,614)	(979)
	24,830	24,258

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong during the year (2006: Nil).

(ii) Mainland China enterprise income tax ("EIT")

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 15% to 33% during the year.

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries of the Company in Mainland China, being wholly foreign owned enterprises, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement of exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

Texhong (China) Investment Co., Ltd., being an investment holding company incorporated in Mainland China, is subject to Mainland China enterprise income tax rate of 15%.

The National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law") on 16 March 2007 and the State Council has announced the Detail Implementation Regulations ("DIR") on 6 December 2007, which became effective from 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. However, for enterprises which were established before the publication of the new CIT Law and were entitled to preferential treatments of reduced CIT tax rate granted by relevant tax authorities, the new CIT rate may be gradually increased to 25% within 5 years after the effective date of the new CIT Law. For the region that enjoys a reduced CIT rate at 15%, the CIT rate will gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

(iii) Overseas income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and, accordingly, is exempted from payment of the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax. 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 (2006: Nil). The Company's subsidiary established in Vietnam was loss-making in 2007, therefore it was not subject to Vietnam income tax in 2007 (2006: Nil).

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007 *RMB'000*	**2006** *RMB'000*
Profit before income tax	262,607	214,794
Tax calculated at domestic tax rates applicable to profits in the respective countries	74,875	67,933
Effect of tax exemption/reduction	(50,795)	(42,326)
Expenses not deductible for tax purposes	1,881	5,378
Tax losses for which no deferred income tax asset was recognised	317	89
Utilisation of previously unrecognised tax losses	(89)	–
Effect of change in tax rate	(1,359)	–
Income tax credit granted for qualified purchases of domestic equipment	–	(6,816)
	24,830	24,258

The weighted average applicable tax rate was 29% (2006: 32%).

7. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	237,777	190,536
Weighted average number of ordinary shares in issue (thousands)	874,842	872,000
Basic earnings per share (RMB per share)	0.27	0.22

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all share options. For share options, calculation is made in order to determine at the number of shares that could have been acquired at fair value (determined at 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 in full.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	237,777	190,536
Weighted average number of ordinary shares in issue (thousands)	874,842	872,000
Adjustments for share options (thousands)	1,572	2,470
Weighted average number of ordinary shares for diluted earnings per share (thousands)	876,414	874,470
Diluted earnings per share (RMB per share)	0.27	0.22

8. DIVIDENDS

The dividends paid in 2007 and 2006 were RMB35,044,000 (HK dollar of 0.04 per share) and RMB85,201,000 (HK dollar of 0.095 per share) respectively. The directors recommend the payment of a final dividend of HK$0.075 per ordinary share, totalling RMB62,073,000. Such dividend is to be approved by the shareholders at the upcoming Annual General Meeting. These financial statements do not reflect this dividend payable.

	2007 *RMB'000*	**2006** *RMB'000*
Interim dividend paid of nil (2006: HKD0.03) per ordinary share	–	25,905
Proposed final dividend of HKD0.075 (2006: HKD0.04) per ordinary share	62,073	35,044
	62,073	60,949

9. TRADE AND BILLS RECEIVABLES

	2007 *RMB'000*	**2006** *RMB'000*
Trade receivables	132,019	118,951
Bills receivable	237,431	112,402
	369,450	231,353
Less: provision for impairment of receivables	(4,618)	(3,901)
Trade and bills receivables – net	364,832	227,452

The credit terms granted by the Group to its customers are generally within 90 days. The ageing analysis of the trade and bills receivables were as follows:

	2007	**2006**
	RMB'000	*RMB'000*
0 to 30 days	287,068	176,974
31 to 90 days	38,459	31,126
91 to 180 days	32,277	15,076
181 days to 1 year	2,401	2,616
Over 1 year	9,245	5,561
	369,450	231,353

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

Included in the trade receivables were amounts due from related parties of RMB4,485,000 as at 31 December 2007 (2006: RMB4,468,000).

Trade and bills receivables are denominated in the following currencies:

	2007	**2006**
	RMB'000	*RMB'000*
RMB	336,898	211,617
United States dollars ("USD")	32,552	19,736
	369,450	231,353

The Group has recognised a loss of RMB717,000 (2006: RMB624,000) for the impairment of its trade receivables during the year ended 31 December 2007. The loss has been included in general and administrative expenses.

10. TRADE AND BILLS PAYABLES

	2007	**2006**
	RMB'000	*RMB'000*
Trade payables	152,662	187,899
Bills payable	314,840	82,650
	467,502	270,549

The ageing analysis of the trade and bills payable were as follows:

	2007	**2006**
	RMB'000	*RMB'000*
0 to 90 days	272,557	237,460
91 to 180 days	187,261	28,275
181 days to 1 year	3,671	3,076
Over 1 year	4,013	1,738
	467,502	270,549

Trade and bills payables are denominated in the following currencies:

	2007	**2006**
	RMB'000	*RMB'000*
RMB	453,793	228,399
USD	9,475	42,150
Vietnam Dong	4,234	–
	467,502	270,549

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to report another record high full-year results of the Group for the year ended 31 December 2007. In line with the Group's business expansion strategy, the Group has continued to grow significantly and gain market share in upstream high value-added core spun cotton textile market in China. During the year, the Group's turnover increased by 22.0% to RMB3,254.1 million. Profit attributable to shareholders increased by 24.8% to RMB237.8 million. Earnings per share were RMB0.27 in 2007, compared to RMB0.22 in 2006. The Board has resolved to declare a final dividend of HKD0.075 per share.

Business review

China textile industry experienced several challenges in 2007. Restrictions posted by the EU and the US on the export of China's textile and garment products, together with RMB appreciation and reduction in VAT refund in the export and garment products have substantially reduced the growth magnitude of the export sector of China textile industry, considerable amounts of the textile and garment orders from the EU and the US has been shifted from China to other countries in Asia. As a result, we noted a slow down in growth of the export sector and export sales of China's textile and garment products. During the year, China's textile and garment export grew by 19.1% to USD175.6 billion, a slow down of 6 percentage points, as compared to the growth of 25.1% in 2006.

In addition, significant increase in cost of raw material, energy and labour and more stringent environmental protection policy have declared a substantial increase in cost and severe erosion in the overall competitiveness of China textile players, there was a decline in the profitability of the textile and garment manufacturing sector, especially for those in the down stream of the industry chain.

Despite of the unfavorable market environment, the Group has gained further market recognition in the core-spun textile sector in Mainland China as well as in the overseas market. Sales volume of yarn and grey fabrics increased by 23.6% and 22.8% to 94,887 tonnes and 113 million meters, respectively for the year ended 31 December 2007. Geographically, the Group's yarn and grey fabrics were mainly sold domestically in China with major customers located in Jiangsu Province, Zhejiang Province and Guangdong Province. Sales from domestic market increased by 20.7% and reached a record high of RMB2,842.1 million in 2007.

However, the unfavorable market environment of China textile industry, especially in the export sector, which have indirectly exerted certain pressure on the profit margin of the Group's products in 2007. The overall gross margin of the Group's products dropped by 1.7 percentage points to 13.4%, compared to 15.1% in 2006. The drop in gross margin was partly due to decrease in average selling price of grey fabrics as results of RMB appreciation and the reduction in VAT refund and partly due to the substantial increase in cost of production/manufacturing, such as labour, energy and the cost of raw materials including spandex, which is the second major raw material of the Group, besides cotton.

In response to the market changes, the Group has reviewed its business development strategies and reinforced/formulated following strategies and implemented its business plans accordingly:

(i) Expand product variety through cooperation with giant fiber suppliers and strengthening of its own R&D

Further to its cooperation with Dow Chemical since 2006, the Group has entered into a strategic partnership agreement with Lenzing Fibers (Shanghai) Co., Ltd. ("Lenzing Shanghai") in April 2007. Lenzing Shanghai is a wholly owned subsidiary company of Lenzing AG-Austria, a world leader in cellulose fiber technology, with an annual production capacity of about 520,000 tonnes of viscose, modal and tencel (lyocell) fibers. The cooperation with these giant fiber suppliers helps the Group in exploring high-end textile and garment market in both Mainland China and overseas. As a result, the Group has gained some prominent customers in Japan and Europe and considerable number of orders from overseas.

In addition, the Group has centralized its research and development resources from its headquarter and all PRC factories and established a formal research and development centre in Changzhou to enhance the Group's research and new product development capability and expand the Group's product variety. Following the successful launch of metallic wire series textile products, the Group has actively launched to the market core-spun textile products with polyester, nylon and polypropylene in 2007.

The above actions have gained encouraging response from the market in 2007. As a result, sales of the Group's non-spandex core-spun textile products grew significantly by 61.8% to RMB749.0 million. The Directors believe that continuous and actively launch of new and high value-added core-spun textile products is an effective tool to enhance the Group's leading position in core-spun textile products in the world. In addition, expanding our product variety could effectively diversify the risk of fluctuation in raw material cost in the long run.

(ii) Streamline production process and enhance labour productivity

According to a research/study conducted by China State Textile Industry Council, there was a general increase in major costs of production (including raw materials, energy and labour) for most of their members in the second half of 2007, as compared to that of 2006. Among those major costs, labour costs surged by 14.0%. It is believed that, following the introduction of New PRC Labour Contract Law which became effective on 1 January 2008, labour cost (including wages, welfare and other costs related to labour force) is likely to climb further in 2008. Continuously surging in costs becomes one of the major challenges for China textile manufacturers. During the year, the Group's direct labour costs surged by 31.7%, which was partly due to the increase in number of employees and partly due to the increase in the scale of salary and wages. The Group has reviewed the production process of all its subsidiary factories in China and studied the current structure of labour force employed by each subsidiary, and formulated following measures to streamline production process and enhance labour productivity:

- Further enhance its production process automation policy and gradually reduce headcount in each production line, gradually transform the Group's factories in China from labour-intensive production facilities to capital/technology intensive production facilities;

- Extend the Group's performance-based compensation scheme from senior management level to plant supervisor of each single production process to enhance labour productivity and production efficiency; and

- Invest in employee by employing more internal resources in providing regular formal and on-the-job training, and assist each employee in achieving self-development personal and career goals.

The above measures have been the major human resources task of the Group since the fourth quarter of 2007. The Directors strongly believe that such measures would help the Group in streamlining its current structure of the labour force in each subsidiary factory and enhancing the Group's labour productivity and production efficiency in the near future.

(iii) Capacity expansion in Vietnam for lowering manufacturing cost

To overcome the continuous increasing pressure of the manufacturing cost in China, the Group made a strategic move in 2006 to shift its yarn capacity expansion focus from low-cost acquisitions in China to expansion in Vietnam. It is the Group's plan to expand its yarn production capacity in Vietnam to approximately 350,000 spindles before the end of 2009, gradually by three phases. Phase I of the Vietnam expansion plan comprises 70,000 spindles, which has been put into commercialised production in October 2007. Phase II of about 140,000 spindles is currently under construction, it is the Group's plan to put Phase II into trial run operations in the second quarter of 2008 and commercialised production in the third quarter. Phase III of about another 140,000 spindles is planned to start construction work immediately after the completion of Phase II and expected to start trial run in the first half of 2009.

As the estimated overall average manufacturing costs (including labour and energy costs) in Vietnam would be substantially lower than the Group's current average manufacturing cost of its 11 factories in Mainland China, the Director believe that, after putting into operations of the production facilities on the completion of Phase I, II and III, the Group's average manufacturing cost could be gradually lowered, and the Group's overall gross margin of its products is likely to be lowered, and the Group's overall gross margin of its products is likely to be improved in the near future.

Outlook

2008 is a critical year for all players in China textile industry. The market expected rapid appreciation of RMB will further impact the cost competitiveness of China textile and garment products in the international market, it is believed that substantial part of the overseas orders will be shifted to some developing countries in Asia with rapid development in textile industry, such as Pakistan and India. Sub-prime crisis has caused US economy to the edge of recession and is likely to slow-down the economic growth pace of EU. As a result, the slow-down of the two major economies in the world has almost declared a slow-down in demand for textile products. Continuous surge in raw material, energy and labour costs will further impact the profitability of China textile players. The overall overcapacity in textile industry will continue to cut the ever-slim profit margin of those manufacturers with a simple commoditised product structure. Tightening monetary policy in Mainland China as a key macro-economic control is unlikely to be relaxed in first half of 2008. All of above challenges will test the overall competitiveness and risk management capability of China textile players in 2008. We expect that some of the industry players will be squeezed out in the near future, which is likely to accelerate the consolidation process of the fragmented textile industry of China and, in the long run, enhance the competitiveness and economies of scale of large-scaled textile enterprises.

Leveraging on its leading market position in core-spun textile products, the Group has gained further market share and customer base in Mainland China and in the export market including Hong Kong, Japan, Turkey and some of the ASEAN countries in 2007. We expect that the Group's differentiated-product marketing strategy will continue to help in keeping current growth trend in sales of core-spun textile products in Mainland China in 2008.

Following the establishment of the formal research and development centre in Changzhou, the Group will devote more resources to improve its competitive strengths by introducing more innovative new core-spun textile products like the core-spun yarn and fabrics with metallic wires, polyester, polypropylene and nylon for enriching the Group's product structure and enhance the overall profit margin of the Group's products. At the same time, the Group will devote more resources in 2008 on brand name development and quality assurance of its yarn and fabric products after the successful launch of the international standard sales platform at Texhong (China) Investment Co., Ltd., its regional headquarter in Shanghai in July 2007.

For the purpose of funding its business development plans, the Group has arranged a three-year syndication loan facility of US$80 million and a five-year debenture of US$25 million in 2007. Part of the facilities was utilised in 2007 and remaining part will be drawn in 2008 for the Group's capital expenditures. Following the successful commencement of the commercialised production of the its Phase I project in Vietnam, the Group will continue to implement its Vietnam investment plan and expand its upstream yarn production capacity in Vietnam for supplying the Group's customer base in China as well as developing textile markets in ASEAN countries. It is expected that the Group's total yarn production capacity will be increased to about 740,000 spindles before the end of 2008 by adding the Phase II of 140,000 spindles in Vietnam. By taking the advantages of the expected substantially lower manufacturing cost in Vietnam as compared to China, it is expected that the Group's overall average cost of its core-spun textile products could be decreased in the near future after the planned yarn production capacity of 210,000 spindles (Phase I and Phase II together) in Vietnam have been gradually put into commercialised operations in 2008.

Looking ahead, China will remain as the Group's core market in 2008 and it is expected that sales in China will attain outstanding growth with the Group's current differentiated-product strategy and the expected growing demand of high-value added textile products as results of the rapid growth in domestic consumption power in recent years. Following the successful establishment of the Phase I yarn production facilities in Vietnam, the Group will form a sales and marketing team in Vietnam in 2008 for exploring the market opportunities in Vietnam and other ASEAN countries. Being one of the most competitive cotton textile manufacturers in China and a leading supplier of core-spun textile products in the world, the Directors are confident that in 2008, the Group's market position in China as well as in ASEAN countries, will be further enhanced in line with its business expansion plans.

FINANCIAL REVIEW

Turnover

The Group's turnover comprises the sales of yarn, grey fabrics and garment fabrics. Due to the strong domestic demand for high value-added core-spun cotton textile products, turnover of the Group grew significantly in 2007. Turnover of the Group by products are shown as below.

	2007	**% of total**	**2006**	**% of total**	**Change between 2007 and 2006**
	RMB'000		*RMB'000*		
Yarn	**2,126,443**	**65.4%**	**1,619,103**	**60.7%**	31.3%
Grey fabrics	**989,880**	**30.4%**	**815,150**	**30.6%**	21.4%
Garment fabrics	**119,972**	**3.7%**	**198,873**	**7.5%**	(39.7%)
Other textile products	**17,814**	**0.5%**	**34,090**	**1.2%**	(47.7%)
Total	**3,254,109**	**100%**	**2,667,216**	**100%**	22.0%

Yarn continued to be the Group's top selling products with sales amount increased by 31.3%, reaching a record high sales value of RMB2,126.4 million in 2007. Sales of grey fabrics also increased by 21.4%, benefited from the growing demand of high value-added core-spun cotton textile products. However, the continuous appreciation in RMB and further reduction in export VAT refund in 2007 impacted severely in the Group's sales of garment fabrics.

Gross profit and gross profit margin

Due to the rise in sales volume and the gain in market share in the core-spun cotton textile products, gross profit of the Group increased from RMB402.9 million to RMB434.8 million, representing an increase of 7.9% compared to last year.

Nevertheless, RMB appreciation and cut in VAT refund have greatly impacted the export sector of the textile and garment products, which indirectly led to a drop in average selling prices of the Group's products. In addition, the rise in cotton and spandex prices, energy and labour costs has exerted significant cost pressure to the Group. The above pressures on selling prices and manufacturing costs has resulted in a drop of gross profit margin by 1.7 percentage points to 13.4% in 2007.

Cost structure

Cost of sales increased by 24.5% to RMB2,819.4 million. Besides the increase in production volume, the rise in raw material costs (such as cotton, viscose and spandex) and labour costs has also led to an increase in the proportion of raw material and direct labour costs to the Group's total manufacturing costs.

Selling and distribution costs

For the year ended 31 December 2007, the Group's selling and distribution costs amounted to RMB75.9 million, representing an increase of 17.0% compared to that of last year. The increase was in line with the increase in sales volume.

General and administrative expenses

During the year, the Group's general and administrative expenses increased by 30.3% to RMB144.4 million, which amounted to 4.4% of the Group's turnover. The increase was mainly due to the increase in employees in relation to administration and management of the new factories in Vietnam.

Cash flow

	2007	**2006**
	RMB'000	*RMB'000*
Net cash generated from operating activities	122,708	41,338
Net cash used in investing activities	(489,965)	(232,948)
Net cash inflow from financing activities	426,985	71,525
Cash and cash equivalents at 31 December	199,615	139,887

For the year ended 31 December 2007, net cash generated from operating activities amounted to RMB122.7 million. The increase in net cash inflow from operating activities was mainly due to the increase in the Group's trade and bills payable as a result of utilisation of the Group's trade finance banking facilities. The net cash used in investing activities amounted to RMB490.0 million, which was mainly used for the payment of machinery and other capital expenditures of the Phase I of the Group's new production base in Vietnam. During the year under review, the net cash inflow from financing activities amounted to RMB427.0 million, representing the net increase in bank borrowings, including the partial drawdown of a 3-year syndication loan agreement of US$80 million entered by the Company from a bank syndicate with ABN AMRO Bank and Citibank as lead banks. In addition, the Group issued a 5-year debenture of US$25 million to Deutsche Bank in 2007.

Liquidities and financial resources

As at 31 December 2007, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB210.4 million (as at 31 December 2006: RMB154.3 million)

As a result of business expansion in 2007, the Group's inventories and trade and bills receivables increased substantially by RMB201.2 million and RMB137.4 million to RMB651.9 million and RMB364.8 million, respectively (as at 31 December 2006: RMB450.7 million and RMB227.5 million). The inventory turnover days and trade receivable turnover days were 71 days and 33 days respectively, compared to 58 days and 27 days in 2006. The increase in inventory turnover days was partly due to an increase in the inventory level of cotton in December 2007 for the new production facilities in Vietnam, which has just commenced commercialised production in October 2007, and partly due the increase of strategic reserve of cotton for the production use in 2008.

To cater for capital expenditure requirement as a result of the Group's business expansion in Vietnam, the Group's long-term bank borrowings increased by RMB498.1 million to RMB702.6 million as at 31 December 2007. Short-term bank borrowings was reduced by RMB83.3 million to RMB225.3 million as a result of substantial utilisation of trade finance facilities granted by various commercial banks in 2007.

As at 31 December 2007, the Group's financial ratios were as follows:

	2007	**2006**
Current ratio	1.53	1.24
Debt to equity ratio	0.86	0.60
Net debt to equity ratio	0.67	0.42

Borrowings

As at 31 December 2007, the Group's total bank borrowings amounted to RMB927.8 million. Among which, RMB226.5 million (24.4%) were denominated in Renminbi and RMB701.3 million (75.6%) were denominated in United States dollars. These loans borne interest at interest rates ranging from 6.1% to 7.2% per annum (2006: 3.0% to 8.0%).

The Group has successfully reduced the proportion of short-term loan to the total debt level from 60.1% to 24.3% in 2007. In June 2007, the Group entered into a facility agreement with a syndicate of banks for a 3-year loan facility up to principal amount of US$80 million. Among which, approximately US$55 million has been drawn by the Group in 2007. In addition, the Group issued a 5-year debenture of US$25 million in 2007. The proceeds from the syndication loan drawn and the debenture were mainly used for repayment of bank loans of the Group's various operating subsidiaries in Mainland China and for the payment of machinery and other capital expenditure of the Group's Vietnam project.

Of the total bank borrowings of RMB927.8 million, RMB31.5 million were secured by the followings:

(i) pledge of the Group's certain land use rights with a net book amount of approximately RMB4.7 million as at 31 December 2007 (2006: RMB32.2 million);

(ii) pledge of the Group's property, plant and equipment with a net book amount of approximately RMB46.0 million (2006: RMB17.8 million); and

(iii) floating charges over the Group's inventories with a net book amount of RMB14.6 million (2006: RMB60.2 million).

Foreign exchange risk

The Group mainly operates in the Mainland China and Vietnam. Most of the Group's transactions, assets and liabilities are dominated in RMB, USD and Vietnam Dong. Foreign exchange risk also arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures. The Group's exposure to foreign exchange risk is mainly attributable to its bank borrowings denominated in USD. As Group management considers the possibility of the depreciation of RMB in the coming year is low, management does not expect there will be any significant foreign exchange risk associated with the Group's borrowing. As a result, the Group did not use any financial instruments to hedge its foreign exchange risk arising from the Group's borrowings.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

Capital expenditure

For the year ended 31 December 2007, the capital expenditure of the Group amounted to RMB502.2 million (2006: RMB233.2 million). It mainly comprises of additions of land use rights and property, plant and equipment for the newly constructed factories in Vietnam.

Contingent liabilities

As at 31 December 2007, the Group had contingent liabilities of RMB21.9 million (as at 31 December 2006: RMB21.9 million). Such amount represented government grants obtained from the Management Committee of Taizhou Economic Development Zone in connection with the Group's purchase of a piece of land in Taizhou, Jiangsu Province, China. The Directors of the Company and the management of the Group anticipate that no material liabilities will arise form the aforementioned contingencies.

Human Resources

As at 31 December 2007, the Group had a total workforce of 14,952 (as at 31 December 2006: 12,567), of whom 13,580 were located throughout our 11 manufacturing plants in China, 176 were based in regional headquarter in Shanghai, 1,192 were located at the Group's new production base in Vietnam and 4 were based in Hong Kong. New employees were recruited to cater for the Group's business expansion during the year. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to nurturing a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contributions of all functional divisions comprising of skilled and motivated staff.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio, providing shareholders with an equitable return. The Board has recommended a final dividend of HKD0.075 per share in respect of the financial year ended 31 December 2007 to shareholders whose names appeared on the register of members on 16 May 2008. Subject to approval of the shareholders at the forthcoming Annual General Meeting, the dividend for the year represents a 26% payout of the total net profit for the year.

Closure of register of members

The Register of Members of the Company will be closed from 9 May 2008 to 16 May 2008, both days inclusive, during which period no transfer of shares can be registered. To qualify for the final dividend (which will be payable on or about 3 July 2008) to be approved at the forthcoming Annual General Meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on 8 May 2008.

Purchase, sale and redemption of the listed securities of the Company or its subsidiaries

There was no purchase, sale or redemption of the Company's listed shares by the Company or its subsidiaries during the year ended 31 December 2007.

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 of Directors of the Company comprises four executive Directors and three independent non-executive Directors. The Board of Directors has adopted the code provisions of the Code of Corporate Governance Practices ("Code Provisions") set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited. During the reporting period, the Company had complied with the Code Provisions except for the following deviation:

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Hong Tianzhu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly every three months to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Hong and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

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 in Appendix 10 of the Listing Rules ("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 code of conduct regarding the Directors' securities transactions during the reporting period.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. 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 of Directors. The committee met in a semi-annual basis and the review covers the findings of internal auditors, internal controls, risk management and financial reporting matters.

Remuneration committee

The remuneration committee of the Directors comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi and the chairman and executive Director Mr. Hong Tianzhu. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board of Directors.

Publications of results announcement

This results announcement is published on the websites of the Company (www.texhong.com) and The Stock Exchange of Hong Kong Limited (www.hkex.com.hk). An annual report for the year ended 31 December 2007 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available in the same websites in due course.

Acknowledgement

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders and business associates for their continuous support and the entire staff for their dedication and contribution to the Group during the year.

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

Hong Kong
3 April 2008

As at the date of this announcement, the Board comprises Mr. Hong Tianzhu, Mr. Zhu Yongxiang, Mr. Gong Zhao and Mr. Tang Daoping, being executive Directors, Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi, being independent non-executive Directors.