天虹紡織集團有限公司
TEXHONG TEXTILE GROUP LIMITED

(incorporated in Cayman Islands with limited liability)
(Stock code: 2678)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

The board (the "Board") of directors (the "Directors") of Texhong Textile Group Limited ("Texhong" or the "Company") is pleased to present the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008, together with the comparative figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 June	
		2008	**2007**
	Note	*RMB'000*	*RMB'000*
Sales	*2*	1,824,086	1,440,209
Cost of sales	*3*	1,600,077	(1,241,496)
Gross profit		224,009	198,713
Selling and distribution costs	*3*	(43,984)	(34,894)
General and administrative expenses	*3*	(89,847)	(65,379)
Other income	*2*	43,921	11,944
Other gains/(losses) – net	*2*	456	(2,864)
Operating profit		134,555	107,520
Finance income		36,685	10,368
Finance costs		(35,066)	(23,061)
Finance income/(costs) – net	*4*	1,619	(12,693)
Share of loss of an associate		(1,483)	–
Profit before income tax		134,691	94,827
Income tax expense	*5*	(16,521)	(14,905)
Profit for the period, attributable to equity holders of the Company		118,170	79,922
Earnings per share for profit attributable to the Company's equity holders during the period (expressed in RMB per share)	*6*		
– Basic		0.134	0.092
– Diluted		0.134	0.091
Dividends	*7*	–	–

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 2008 30 June RMB'000	Audited As at 2007 31 December RMB'000
ASSETS			
Non-current assets			
Land use rights		89,641	104,622
Property, plant and equipment		1,453,581	1,187,543
Investment in an associate		50,056	43,799
Deferred income tax assets		1,446	3,607
		1,594,724	1,339,571
Current assets			
Inventories		672,898	651,899
Trade and bills receivables	8	542,362	364,832
Prepayments, deposits and other receivables		92,931	78,440
Pledged bank deposits		54,681	10,773
Cash and cash equivalents		209,804	199,615
		1,572,676	1,305,559
Current liabilities			
Trade and bills payables	9	536,142	467,502
Accruals and other payables		267,656	155,637
Current income tax liabilities		10,775	7,325
Borrowings		246,632	225,253
Derivative financial liabilities	10	14,560	–
Dividend payable		58,281	–
		1,134,046	855,717
Net current assets		438,630	449,842
Total assets less current liabilities		2,033,354	1,789,413
Non-current liabilities			
Borrowings		931,363	702,584
Deferred income tax liabilities		10,717	11,078
		942,080	713,662
Net assets		1,091,274	1,075,751
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		94,064	93,990
Reserves		997,210	981,761
Total equity		1,091,274	1,075,751

Notes:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 ("the Stock Exchange") since 9 December 2004.

The condensed consolidated interim financial information was approved for issue by the Board on 6 September 2008.

This condensed consolidated financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34, 'Interim financial reporting'. The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards.

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions'
- HK(IFRIC) – Int 12, 'Service concession arrangements'
- HK(IFRIC) – Int 14, 'HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Management is assessing the impact of the new requirements and it is not expected to have a material impact on the Group's financial statements as the present operating segments have been identified on the basis of internal reports reviewed by the decision maker.
- HKAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. It is not expected to have a material impact on the Group's accounts as the Group has already chosen the allowed alternative treatment to capitalise borrowing cost attributable to qualifying assets under the original HKAS 23.
- HKFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact and it is not expected to have a material impact to the Group.

- HKFRS 3 (amendment), 'Business combinations' and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates' and HKAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

- HKAS 1 (amendment), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of assessing the impact under the revised disclosure requirements of this standard.

- HKAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to HKAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group.

- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. This standard does not have any impact on the Group's financial statements.

- IFRS 1 and IAS 27 (amendment) 'Cost of an investment in a subsidiary, jointly controlled entity or associate', and consequential amendments to IAS 18 'Revenue', IAS 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 36 'Impairment of Assets', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group is not a first-time adopter of IFRS.

2. REVENUE AND SEGMENTAL INFORMATION

(i) Sales, other income and other gains/(losses) – net

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Sales		
Sales of goods (net of value-added tax)	1,824,086	1,440,209
Other income		
Subsidy income	43,157	11,944
Return of income tax relating to re-investment	764	–
	43,921	11,944
Other gains/(losses) – net		
Derivative financial liabilities at fair value through profit or loss:		
Fair value loss	(14,560)	–
Net foreign exchange gain/(loss)	14,650	(4,369)
Others	366	1,505
	456	(2,864)
Total revenue	1,868,463	1,449,289

(ii) Segmental information

(a) Primary reporting – business segments

As at 30 June 2008, 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.

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Sales		
Mainland China	1,735,694	1,436,901
Vietnam	214,090	–
Other countries	252,822	56,948
	2,202,606	1,493,849
Inter-segment sales	(378,520)	(53,640)
	1,824,086	1,440,209

Sales is allocated based on the country where the sales is derived.

	Six months ended 30 June	
	2008	**2007**
	RMB'000	*RMB'000*
Segment results		
Mainland China	138,164	118,913
Vietnam	7,560	(575)
Other countries	(3,949)	(5,111)
Unallocated income less expense	(7,220)	(5,707)
Operating profit	134,555	107,520

Segment results is allocated based on where the operating profits arise.

	30 June 2008	**31 December 2007**
	RMB'000	*RMB'000*
Total assets		
Mainland China	2,206,199	2,082,873
Vietnam	738,563	459,927
Other countries	109,550	27,369
Unallocated assets	63,032	31,162
Associated company	50,056	43,799
	3,167,400	2,645,130

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

	Six months ended 30 June 2008 *RMB'000*	2007 *RMB'000*
Capital expenditure		
Mainland China	111,772	106,447
Vietnam	230,996	142,258
	342,768	248,705

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

3. EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution costs and general and administrative expenses are analysed as follows:

	Six months ended 30 June 2008 *RMB'000*	2007 *RMB'000*
Cost of inventories	1,304,173	1,035,247
Employment costs	159,825	130,940
Depreciation and amortisation	46,605	35,824
Transportation	34,503	20,232
Utilities	100,894	85,774
Auditor's remuneration	1,500	1,500

4. FINANCE INCOME AND COSTS

	Six months ended 30 June 2008 *RMB'000*	2007 *RMB'000*
Finance costs		
Interest on borrowings wholly repayable within five years	(36,629)	(23,061)
Less: amount capitalised in property, plant and equipment	1,563	–
	(35,066)	(23,061)
Finance income		
Exchange gain on financing activities	36,001	9,708
Interest income on short-term bank deposits	684	660
	36,685	10,368
Net finance income/(costs)	1,619	(12,693)

5. INCOME TAX EXPENSE

	Six months ended 30 June 2008 *RMB'000*	2007 *RMB'000*
Mainland China enterprise income tax ("EIT")	14,721	14,428
Deferred income tax	1,800	477
	16,521	14,905

(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 six months ended 30 June 2008 (For the six months ended 30 June 2007: Nil).

(ii) Mainland China enterprise income tax

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 0% to 25% during the period.

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries of the Company established 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 18% for the six months ended 30 June 2008 (For the six months ended 30 June 2007: 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 has been effective from 1 January 2008. According to the new CIT Law, the income tax rates for both domestic and foreign investment enterprises are 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%, 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 the Cayman Islands as an exempted company with limited liability under the Company Law of 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 then 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 six months ended 30 June 2008 (For the six months ended 30 June 2007: Nil). The Company's subsidiary established in Vietnam enjoys the tax holiday for entitlement of exemption from EIT in 2008, therefore it is not subject to Vietnam income tax during the six months ended 30 June 2008 (For the six months ended 30 June 2007: Nil).

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB118,170,000 (2007: RMB79,922,000).

The basic earnings per share is based on the weighted average number of 884,176,000 (2007: 872,000,000) ordinary shares in issue during the period.

The diluted earnings per share is calculated on the basis of 884,980,000 ordinary shares had been in issue throughout the period, taking into account the weighted average number of 884,176,000 (2007: 872,000,000) ordinary shares in issue and 804,000 (2007: 2,295,000) ordinary shares to be issued assuming conversion of all outstanding share options. For the share options, a calculation is made in order 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 in full.

7. DIVIDENDS

The directors do not recommend the payment of interim dividends for the six months ended 30 June 2008 (For the six months ended 30 June 2007: nil).

8. TRADE AND BILLS RECEIVABLES

	30 June 2008 *RMB'000*	**31 December 2007** *RMB'000*
Trade receivables	138,471	132,019
Bills receivable	406,217	237,431
	544,688	369,450
Less: Provision for impairment of receivables	(2,326)	(4,618)
	542,362	364,832

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

	30 June 2008 *RMB'000*	**31 December 2007** *RMB'000*
0 to 30 days	322,187	287,068
31 to 90 days	175,247	38,459
91 to 180 days	41,360	32,277
181 days to 1 year	2,632	2,401
Over 1 year	3,262	9,245
	544,688	369,450

9. TRADE AND BILLS PAYABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000
Trade payables	101,975	152,662
Bills payable	434,167	314,840
	536,142	467,502

The ageing analysis of the trade and bills payables was as follows:

	30 June 2008 RMB'000	31 December 2007 RMB'000
0 to 90 days	137,073	272,557
91 to 180 days	287,843	187,261
181 days to 1 year	110,016	3,671
Over 1 year	1,210	4,013
	536,142	467,502

10. DERIVATIVE FINANCIAL LIABILITY

	30 June 2008 RMB'000	31 December 2007 RMB'000
Floating to fixed cross currency swap	14,560	–

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Beginning of the period	–	–
Fair value loss	14,560	–
End of the period	14,560	–

The notional principal amount of the floating to fixed cross currency swap at 30 June 2008 was US$16,800,000.

As at 30 June 2008, the fixed interest rate was 3.98%. The main floating rate was LIBOR.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to report to the shareholders the results of the Group for the six months ended 30 June 2008. During the period under review, the Group's turnover increased by 26.7% from corresponding period last year to RMB1,824,086,000. Profit attributable to shareholders increased by 47.9% from corresponding period last year to RMB118,170,000. Earnings per share for the half year were RMB0.134, increased by 45.7% compared to RMB0.092 for the corresponding period last year.

Industry Review

The first half of 2008 is a challenging time for China textile industry. According to the statistics of the Statistics Centre of China National Textile And Apparel Council, sales revenue for the largest enterprises in China from January to May 2008 was RMB442.11 billion, representing 17.7% increase compared with the corresponding period last year. The industry average net profit ratio during the same period was 3.4%, representing a decrease of 0.08% compared with the corresponding period last year.The export sales rose 7.86% to 27.10 billion US dollars from January to May 2008, but the growth rate was 17.49% points less than the same period last year. Investments in large projects (RMB5 million or more) for the textile industry totaled RMB27.6 billion from January to May 2008, which was 1.32% less than that for the same period last year with the growth rate being 17.47% lower than the whole last year. The above figures revealed the industry was suffering from slower growth rate in term of investment and export sales.

During the first half year of 2008, China textile industry has been plagued by several factors such as the continuing appreciation of RMB, the rising price of cotton, the increasing cost of labour in China due to the new labour law going into effect from 1 January, 2008, the rising domestic financing cost of RMB, and the recession in US and EU due to the sub-prime crisis causing the drop of export orders. It is expected that the increase in market competition will inevitably result in more small scale manufacturers to close down in the coming future, thus speeding up the reshuffling and consolidation of the industry.

Business Review

Amid the unfavourable market environment, the Group still achieved a steady growth of operating results due to the increased tremendous efforts of the management and supervision, the hard work of our managers, our staffs and the addition of capacities of our Vietnam project.

For the six months ended 30 June, 2008, the Group achieved a turnover of RMB1,824,086,000, representing an increase in revenue of 26.7% compared with the same period last year. The turnover comprises the sales of yarn, grey fabrics and garment fabrics. Yarn continued to be the Group' top selling product and sales volume increased by 39.1% to 58,442 tons, while that of grey fabrics slightly decreased by 6.1% to 47.4 million meters, compared with the same period last year. We continue to gain market share and customer base of yarn, particularly the high value-added core-spun yarn products. 70,000 spindles of the Phase I of the Vietnam expansion plan has started commercial production in October 2007, and have contributed RMB214.1 million sales volume of yarn to the Group during the first half of 2008. On average, those 70,000 spindles can produce about 24,000 tones of yarn, or RMB370 million sales annually. During the period, we have relocated and rearranged one of our factories in Xuzhou, such that the number of spindles for yarns was increased while the number of shuttleless looms for grey fabrics was decreased. As a result of such relocation and rearrangement, the sales volumes of yarns and grey fabrics increased and decreased respectively during the first half year.

The overall gross margin of the Group's products dropped by 1.5 to 12.3% compared to 13.8% for the corresponding period last year. The drop in the gross margin was partly due to decrease in average selling price of yarn and grey fabrics as a results of the appreciation of RMB, affecting our downstream customers, and partly due to increase of cost of production as a result of the increase in the cost of cotton, energy and labour. However, once the whole 210,000 spindles of Phase I and Phase II Vietnam production facilities are put into operations, it is expected that the Group's average manufacturing cost could be gradually lowered and the overall margin will likely be improved in the future.

The Group has further strengthened the strategic cooperation with Dow Chemical and Lenzing Fibers (Shanghai) Co., Ltd. During the first half of 2008, the Group has applied the olefin-based XLA™ fiber technology invented by Dow Chemical and the cellulose-based Tencel® fiber technology invented by Lenzing Fibers to the making of different non-spandex core-spun elastic yarns for high graded denim which poses different new features to the jeanswear. These products have received overwhelming market response and success, and have helped our Group to gain more international prestigious customers. It is believed that by exploring and penetrating different high-ended textile markets, we will continuously be a leading high value-added core-spun cotton textile manufacturer.

The Group has always been committed to be a corporation with a strong sense of social responsibility. We have contributed some of our resources to help those Chinese citizens affected by the 12 May earthquake that occurred in the Sichuan Province. We donated RMB4.18 million (cash and bedding) to aid those families made homeless by the earthquake. The Group has also been actively assisting those employees whose families have been affected by the earthquake.

Future Outlook

Looking ahead, we will strive to keep our strategy to increase our market share both domestically and internationally. Our Group has been awarded on 15 July 2008 by the China National Textile & Apparel Council to be one of the top ten most competitive cotton textile manufacturers in China (ranks the sixth in terms of turnover, up from the eighth last year) for the 2007/2008 period. Our client base has been increased from about 1,800 customers at the end of last year to above 2,000 customers as at 30 June 2008. We expect that the Group's current growth trend on sales of core-spun textile products will sustain in the second half of 2008.

Our strategy to concentrate on the upstream high value-added core spun textile business segment proves to be effective. While lots of downstream textile business segments such as clothing and dying export manufacturers are facing difficulties during the recent plight, we can still maintain a decent operating result of the first half of 2008. Strong demand of our products is foreseen. We will continue to devote our resources to the research and development centre set up in Changzhou last year to improve our competitive strengths by introducing more innovative new core-spun cotton textile products like the core-spun yarn and fabrics with metallic wires, polyester, polypropylene and nylon for improving the Group's product structure and enhance the overall profit margin of the Group's products.

In order to cope with the increasing cost of production and the restrictive cotton import quota of China, we have stepped out to establish our Vietnam production plant since 2006. Our Phase I production lines of the Vietnam yarn production plant has been put into commercial operation at the beginning of this year. Starting from April this year, the 70,000 spindles of Phase I have been continuously contributing profit to our Group. 140,000 spindles of the Phase II production lines will be put into trial run operation in the second half of this year, and targeted to have full commercial production starting from the beginning of next year. As the production cost, particularly the cost of labour and electricity, in Vietnam is much lower than that of China, we expect our Vietnam plant will further improve our overall average cost in future. Recently, Vietnam currency has been depreciated from USD/VND 16,010 to USD/VND 16,842 during the first half of 2008. The inflation rate was recorded to be 26.8% in June 2008. Nonetheless, the effect to our Vietnam production plant was minimal. All of our cotton materials for Vietnam plant are imported to Vietnam and we make payment by USD. Nearly 95% of our products for Vietnam are exported and we received payment by USD. Both of our import and export bypass the movement of VND. In fact, we have been benefiting from the recent depreciation of Vietnam currency as the local cost such as labour and energy cost are paid by the depreciated VND which have been exchanged to a lesser amount of USD. Only 5% of our products manufactured in Vietnam are sold domestically. We will form a sales and marketing team in Vietnam for further exploring the market opportunities in Vietnam and other ASEAN countries.

Starting from 1 August, 2008, the export VAT refund rate on garments has been raised by 2% to 13%. This has partly relieved the margin pressure of the whole garment export sector. Our exports of yarn and grey fabrics, as well as our downstream garment export customers, will directly enjoy the VAT refund. Furthermore, all the quota restrictions on China's textile products imposed by EU and US have been and will be removed on 1 January 2008 and 1 January 2009 respectively. Although EU and US may adopt other trade restrictions on the export of China's textile and garment products such as technical trade barriers, it should be a new opportunity to those well prepared manufacturers to explore export business.

Financial Review

Liquidity and financial resources

As at 30 June 2008, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB264.5 million (As at 31 December 2007: RMB210.4 million).

As a result of business expansion in the period under review, the Group's inventories and trade and bills receivables increased by RMB21.0 million and RMB177.6 million to RMB672.9 million and RMB542.4 million respectively (As at 31 December 2007: RMB651.9 million and RMB364.8 million). The inventory turnover days and trade receivable turnover days are 75 days and 45 days respectively, compared to 71 days and 33 days respectively as at 31 December 2007.

As at 30 June 2008, the Group's bills receivable amounted to RMB406.2 million (As at 31 December 2007: RMB237.4 million). The bills receivable is in the form of bank acceptance drafts, which the banks assume full responsibility for ultimate payment to the Group. The drafts are endorsable, transferable or discountable, and offer a very high liquidity to the Group.

To cater for the working capital and capital expenditure requirement as a result of the Group's business expansion, the Group's bank borrowings increased by RMB250.2 million to RMB1,178.0 million (As at 31 December 2007: RMB927.8 million).

As at 30 June 2008, the Group's financial ratios were as follows:

	30 June 2008	**31 December 2007**
Current ratio	1.39	1.53
Debt to equity ratio	1.08	0.86
Net debt to equity ratio	0.84	0.67

1 Based on total borrowings over total equity

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

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, recognized 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. In order to mitigate interest rate risk and foreign exchange risk for repayment of US$21 million syndication loan, the Group has entered into an interest rate cross currency swap with ABN AMRO. Except for this, the Group did not involve in any other hedging activities during the period under review.

Capital expenditure

For the six months ended 30 June 2008, the capital expenditure of the Group amounted to approximately RMB342.8 million (For the six months ended 30 June 2007: RMB248.7 million). It represents additions to land use rights and property, plant and equipment for new production plant in Vietnam and China.

Pledge of assets

As at 30 June 2008, the Group's inventories, land use rights and buildings and machinery and equipment with an aggregated net book amount of approximately RMB247.4 million were pledged to secure general banking facilities of the Group.

Contingent liabilities

As at 30 June 2008, the Group had contingent liabilities of RMB21.9 million (as at 31 December 2007: 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.

Human resources

As at 30 June 2008, the Group had a total workforce of 13,592 representing a decrease of 9.1% compared with that of last year. (as at 31 December 2007: 14,952), of whom 12,343 were based in the regional headquarter in Shanghai and in our 11 manufacturing plants in mainland China. The remaining 1,249 were located in outside-mainland China region including Vietnam, Hong Kong and Macau. During the period, the sales were increased while the total number of staff decreased, representing an improvement of labour productivity. The Group will continuously optimize the workforce structure, and offer its staff competitive remuneration schemes. The Group is committed to nurturing a learning and sharing culture in the organisation. 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

In view of the estimated significant capital investment in Vietnam and the related working capital requirements of the Group in the second half of 2008, the Board does not recommend the payment of an interim dividend for the six months ended 30 June 2008 (For the six months ended 30 June 2007: nil). Depending on the financial and cash position of the Group, the Board still intends to maintain a long term, stable dividend payout ratio, providing shareholders with an equitable return.

Purchase, sale and redemption of the listed securities of the Company

During the reporting period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Group was committed to maintaining high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The Board comprises four executive Directors and three independent non-executive Directors. The Board 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. During the reporting period, the Company had complied with the Code Provisions except for the following deviations:

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 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 Tianzhu and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

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 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 standard 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.

The audit committee has discussed with management and reviewed the unaudited consolidated accounts for the six months ended 30 June 2008.

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.

Publication of results announcement and interim report

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 interim report for the six months ended 30 June 2008 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

Acknowledgement

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

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

Executive Directors:
Mr. Hong Tianzhu *(Chairman)*
Mr. Zhu Yongxiang
Mr. Tang Daoping
Mr. Gong Zhao

Independent non-executive Directors:
Mr. Ting Leung Huel, Stephen
Ms. Zhu Lanfen
Mr. Cheng Longdi

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

Hong Kong

6 September 2008