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

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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHTS

- Sales increased by 14.9% to RMB3,737.6 million
- Profit for the year decreased by 9.9% to RMB214.2 million
- Earnings per share decreased by 11.1% to RMB0.24
- Successfully expanded to Vietnam with additional 210,000 spindles contributed by the Vietnam production plant. The Group's yarn capacity reached over 700,000 spindles

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 2008, together with the comparative figures in 2007.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December

	Note	2008 RMB'000	2007 RMB'000
Sales	2	3,737,641	3,254,109
Cost of sales	4	(3,278,706)	(2,819,358)
Gross profit		458,935	434,751
Other income	3	66,156	21,673
Other (losses)/gains – net	3	(4,831)	43,109
Selling and distribution costs	4	(91,277)	(75,851)
General and administrative expenses	4	(164,204)	(144,390)
Operating profit		264,779	279,292
Finance income		3,947	3,594
Finance costs		(3,392)	(23,457)
Finance income/(costs) – net	5	555	(19,863)
Share of (loss)/profit of an associate		(16,966)	3,178
Profit before income tax		248,368	262,607
Income tax expense	6	(34,175)	(24,830)
Profit for the year attributable to equity holders of the Company		214,193	237,777
Earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)			
– basic	7	0.24	0.27
– diluted	7	0.24	0.27
Dividends	8	–	62,073

CONSOLIDATED BALANCE SHEET
As at 31 December

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Land use rights		116,482	104,622
Property, plant and equipment		1,467,211	1,187,543
Investment in an associate		34,572	43,799
Deferred income tax assets		4,855	3,607
		1,623,120	1,339,571
Current assets			
Inventories		690,026	651,899
Trade receivables	9	78,124	127,401
Bill receivables	9	385,989	237,431
Prepayments, deposits and other receivables		87,351	78,440
Pledged bank deposits		21,570	10,773
Cash and cash equivalents		313,012	199,615
		1,576,072	1,305,559
Current liabilities			
Trade and bill payables	10	631,068	467,502
Accruals and other payables		226,762	155,637
Current income tax liabilities		8,018	7,325
Borrowings		522,607	225,253
Derivative financial instruments		7,915	–
		1,396,370	855,717
Net current assets		179,702	449,842
Total assets less current liabilities		1,802,822	1,789,413
Non-current liabilities			
Borrowings		554,267	702,584
Deferred income tax liabilities		20,173	11,078
		574,440	713,662
Net assets		1,228,382	1,075,751
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		94,064	93,990
Reserves		1,134,318	981,761
Total equity		1,228,382	1,075,751

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Group is principally engaged in the manufacturing 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") issued by the Hong Kong Institute of Certified Public Accountant ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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.

Amendments and interpretations effective in 2008 but are not relevant nor have any impact to the Group's financial statements

The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met.

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 Group has not early adopted the new and revised standards, amendments or interpretations that have been issued but are not yet effective for the Group in 2008. Details of these are included in the consolidated financial statements.

2. SALES AND SEGMENT INFORMATION

(i) Sales

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

(ii) Segmental information

(a) Primary reporting – business segments

The Group operates 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 Mainland China, Vietnam and Macao.

	2008 *RMB'000*	**2007** *RMB'000*
Sales		
Mainland China	3,656,029	3,225,638
Vietnam	81,612	28,471
	3,737,641	3,254,109

Sales is allocated based on the country/place where the goods were shipped.

	2008 *RMB'000*	**2007** *RMB'000*
Segment results		
Mainland China	230,437	296,526
Vietnam	42,911	(3,943)
Macao	17,517	6,376
Hong Kong	(26,086)	(19,667)
Operating profit	264,779	279,292

Segment results is allocated based on the location where operating companies are situated.

	2008 *RMB'000*	**2007** *RMB'000*
Total assets		
Mainland China	2,140,520	2,126,672
Vietnam	1,008,154	459,927
Macao	38,711	18,784
Hong Kong	11,807	39,747
	3,199,192	2,645,130

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

	2008 *RMB'000*	**2007** *RMB'000*
Capital expenditure		
Mainland China	112,564	193,134
Vietnam	303,389	309,057
	415,953	502,191

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

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

	2008 *RMB'000*	2007 *RMB'000*
Other income		
Subsidy income (i)	33,149	18,408
Government grants relating to the relocation of a subsidiary	18,370	–
Consulting income (ii)	11,691	–
Re-investment incentives based on income tax paid	2,946	3,265
	66,156	21,673
Other (losses)/gains – net		
Derivative financial liability at fair value through profit or loss:		
– Unrealised loss	(7,915)	–
– Realised loss	(6,991)	–
Net foreign exchange gains/(losses)	5,001	(3,813)
Excess of the fair value of net assets acquired over cost of acquisition of a subsidiary	–	38,894
Others	5,074	8,028
Total other (losses)/gains – net	(4,831)	43,109

Notes:

(i) Subsidy income mainly related to incentive for development in Xuzhou, Mainland China and grants provided by municipal governments based on the amounts of value added tax and income tax paid.

(ii) Consulting income related to technical services in providing operating data and statistics to a machinery vendor, which was charged at a fixed price of approximately RMB11,691,000.

4. EXPENSES BY NATURE

	2008 *RMB'000*	2007 *RMB'000*
Changes in inventories of finished goods and work in progress	(59,399)	(68,582)
Raw materials and consumables used	2,823,298	2,440,525
Employment costs	302,138	276,040
Depreciation and amortisation	96,314	73,609
Office expense	20,731	30,206
Utilities	193,437	167,565
Transportation	67,387	57,265
Auditor's remuneration	3,586	3,820
Lease rental expense of buildings and machinery	12,751	8,634
Provision for impairment of trade receivables	2,612	717
Provision for/(reversal of) inventory obsolescence	6,843	(3,781)
Losses on disposal of property, plant and equipment and land use rights	2,194	312
Other expenses	62,295	53,269
Total cost of sales, selling and distribution costs and general and administrative expenses	3,534,187	3,039,599

5. FINANCE INCOME AND COSTS

	2008 *RMB'000*	**2007** *RMB'000*
Interest expense – bank borrowings wholly repayable within five years	64,306	60,282
Less: amount capitalised in property, plant and equipment	(6,275)	(2,524)
	58,031	57,758
Exchange gain on financing activities	(54,639)	(34,301)
Finance costs	3,392	23,457
Finance income – interest income on bank deposits	(3,947)	(3,594)
Net finance (income)/costs	(555)	19,863

6. INCOME TAX EXPENSE

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

	2008 *RMB'000*	**2007** *RMB'000*
Mainland China enterprise income tax		
– Current	27,823	26,444
– Overprovision in prior years	(1,495)	–
Deferred income tax	7,847	(1,614)
	34,175	24,830

(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 (2007: Nil).

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

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 18% to 25% during the year (2007: 15% to 33%).

Except for Texhong (China) Investment Co., Ltd., all other subsidiaries 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 earlier of first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008 in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

(iii) Vietnam income tax

The subsidiary established in Vietnam is subject to income tax rate of 10% (2007: 10%). As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam is entitled to four years' exemption from income taxes followed by nine years of a 50% tax reduction, commencing in the first profitable year after offsetting the losses carried forward from the previous year. The Group is exempted from Vietnam income tax during the year (2007: nil) as year 2008 is the first profit making year after offsetting prior year's losses.

(iv) Other income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The subsidiary established in Macao is subject to income tax rate of 9% (2007: 9%). 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 (2007: Nil).

7. EARNING 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.

	2008	**2007**
Profit attributable to equity holders of the Company (RMB'000)	214,193	237,777
Weighted average number of ordinary shares in issue (thousands)	884,425	874,842
Basic earnings per share (RMB per share)	0.24	0.27

(b) Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all 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.

	2008	**2007**
Profit attributable to equity holders of the Company (RMB'000)	214,193	237,777
Weighted average number of ordinary shares in issue (thousands)	884,425	874,842
Adjustments for share options (thousands)	–	1,572
Weighted average number of ordinary shares for diluted earnings per share (thousands)	884,425	876,414
Diluted earnings per share (RMB per share)	0.24	0.27

8. DIVIDENDS

The directors did not recommend the payment of a final dividend for the year ended 31 December 2008.

	2008 *RMB'000*	**2007** *RMB'000*
Proposed final dividend of nil (2007: HKD0.075) per ordinary share	–	62,073

9. TRADE AND BILL RECEIVABLES

	2008 *RMB'000*	**2007** *RMB'000*
Trade receivables	85,354	132,019
Less: provision for impairment	(7,230)	(4,618)
Trade receivables, net	78,124	127,401
Bill receivables	385,989	237,431
Trade and bill receivables – net	464,113	364,832

The Group generally grants credit terms of less than 90 days to its customers. The ageing analysis of the trade and bill receivables were as follows:

	2008	2007
	RMB'000	*RMB'000*
0 to 30 days	281,255	287,068
31 to 90 days	107,647	38,459
91 to 180 days	75,692	32,277
181 days to 1 year	1,551	2,401
Over 1 year	5,198	9,245
	471,343	369,450
Less: provision for impairment of receivables	(7,230)	(4,618)
Trade and bill receivables – net	464,113	364,832

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

10. TRADE AND BILL PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	537,927	152,662
Bill payables	93,141	314,840
	631,068	467,502

At 31 December 2008, the ageing analysis of the trade and bill payables (including amount due to an associate of trading in nature) is as follows:

	2008	2007
	RMB'000	*RMB'000*
0 to 90 days	205,966	272,557
91 to 180 days	211,575	187,261
181 days to 1 year	208,952	3,671
Over 1 year	4,575	4,013
	631,068	467,502

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to report the financial results for the year ended 31 December 2008. Despite the rampage of the financial crisis and economic recession, the Group still recorded sales revenue of RMB3,737.6 million, increased by 14.9% compared with that of 2007. Profit attributable to shareholders decreased by 9.9% to RMB214.2 million. Earnings per share were RMB0.24 in 2008, compared to RMB0.27 in 2007.

Outlook

The sub-prime mortgage crisis in the United States in 2007 has turned out as the global financial crisis in 2008. It has created unprecedented damages to the world's economy and up to now it is still unable to measure the depth and width of the economic wound. The economic outlook for the rest of 2009 depends largely on the effectiveness of the various massive stimulus plans being implemented in the US and rest of the world.

The Chinese government has announced its 4 trillion economy stimulus plan to boost up the economy, and has declared to keep the 8% GDP growth rate in 2009. With an intention of alleviating the burden of the textile industry, the VAT export rebate rate in China for the textile industry has increased from 11% to 13% in August 2008, from 13% to 14% in December 2008 and from 14% to 15% in February 2009. It has been broadly forecasted that China would be the first country to stand out from the dark cloud of economic recession worldwide.

Although all the quota restrictions on China's textile products imposed by EU and US have been removed since 1 January 2009, EU and US may adopt other trade restrictions on the export of China's textile and garment products such as technical trade barriers.

We have been well prepared for this new challenge and opportunity and have stepped out to establish the Vietnam production plant since 2007. Trade dispute between Vietnam and other countries are very rare. For example, Turkey recently has raised anti-dumping tariff to some viscose textile products from China, India and Indonesia, but not Vietnam. 210,000 spindles of both Phase I and Phase II of our Vietnam production plant have been in full commercial production from the beginning of 2009. The annual sales volume contributed by the 210,000 spindles of the Vietnam plant is about RMB1 billion. With the new productivity added, we believe that we will have a new record high sales volume in 2009.

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 as one of the top 10 most competitive cotton textile manufacturers in China 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 31 December 2008. We expect that the Group's current growth trend on sales of core-spun textile products will sustain in 2009.

Business review

China textile industry experienced several challenges in 2008. During the first half of 2008, the industry was faced with increase in materials, labour and utility costs. During the second half of 2008, the industry has been affected by the global financial tsunami. According to the statistics from the China Customs, the export sales of textile products rose 8.2% to USD185.2 billion for 2008, but the growth rate was 10.7% less than that of 2007. According to the National Bureau of Statistics of China, investments in large projects (RMB5 million or more) for the textile industry totaled RMB272.4 billion for 2008, representing an increase of 6.75% from that of 2007 but the growth rate was 18.99% lower than the whole last year. The January and February 2009 clothing consumer price index decreased by 3.1% and 2.3% respectively compared with the same period last year. The above figures revealed the industry was suffering from slower growth rate in term of investment and export sales, and the lower selling price.

Amid the unfavorable market environment, the Group still achieved a steady growth of operating results contributed by the increased tremendous efforts of the management and supervision, the hard work of our managers and our staffs and our added capacities of the Vietnam project. Our turnover comprises the sales of yarn, grey fabrics and garment fabrics. For the year ended 31 December 2008, yarn continued to be the Group's top selling products and sales volume increased by 30.0% to 123,397 tones, while that of grey fabrics decreased by 12.7% to 98.6 million meters, compared with that of 2007. 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 and 140,000 spindles of the Phase II for the Vietnam expansion plan have started commercial production in October 2007 and January 2009 respectively. On average, those 210,000 spindles can produce about 50,000 tones of yarn, or RMB1 billion sales annually. During the year, 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 period.

The overall gross margin of the Group's products dropped to 12.3% compared to 13.4% last year. The drop in the gross margin was mainly due to decrease in average selling price of yarn and grey fabrics as a results of the worldwide economic recession starting from the last quarter of 2008, and the sluggish export markets affecting our downstream customers. However, the gross margin is expected to go higher from the second quarter of 2009 once the much lower cost of materials, particularly cotton and spandex which account for about 60% and 10% respectively of our cost structure, started to reflect in the cost of goods sold. On the other hand, the whole 210,000 spindles of Phase I and Phase II Vietnam production facilities have been put into commercial operations, which can further help to increase the overall margin in the future.

The Group has further strengthened the strategic cooperation with Dow Chemical and Lenzing Fibers (Shanghai) Co., Ltd. The Group has successfully 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.

During the year, our research and development centre in Changzhou has been developing variety of products to suit the market needs. We have developed core-spun textile products with metal wires, polyester, nylon and polypropylene. Our high productivity, high quality and R&D ability has attracted a wide scope of different customers. For example, during the years, more than RMB70 million of TVC and JC yarns have been sold for China Army's specialised clothing needs.

Although textile industry is said to be one of the markets suffering most from the financial crisis, we are in a good solid stance to face with the plight. We have long been positioning ourselves in the up-stream yarn and grey fabric supplier concentrating on the domestic market. As such, we are not so directly affected by the sluggish export market as the other downstream textile or garment manufacturers. We have more than 2000 customers as at 31 December 2008. The largest customer contributed only 3.2% of the total sales during 2008. Such a wide client base help to diversify significantly any potential receivable default risk of our clients. We are cautious to offer any credit terms to our customers. 60.6% of our trade and bill receivable are within the ageing of 30 days. 83.2% of our receivable is bill receivable, which is in the form of bank acceptance draft which are endorsable, transferable, discountable, assumed full responsibility by banks for ultimate payment, and offer a very high liquidity to the Group. The sum of our highly liquid assets, that is, cash, cash equivalent and bill receivable amounted to RMB699 million as at 31 December 2008. The operating cash in flow as at 31 December 2008 was RMB374.5 million, which was more than double than that of last year. We would try our best to maintain ourselves in a cash rich position in face of the worldwide economic uncertainty.

While we are prudent in the cash and receivable management, we continue to maintain on business growth and development. We have stepped out to establish our Vietnam production plant since 2006. 210,000 spindles of both Phase I and Phase II of our Vietnam production plant have been in full commercial production from the beginning of 2009. The cost of labor and electricity in Vietnam is much lower than that of China. The imported price of our major raw material, cotton, has been much lowered since the second half of 2008. There is no import quota and duty of cotton to Vietnam. The 5% imported duty for yarn to China has been abolished since 1 January 2009. Our Vietnam plant has been enjoying 4-year full exemption of income tax starting from 2008, and starting from 2012, it will enjoy another 9-year half exemption of income tax. We expect our Vietnam plant will further improve our overall average cost in future. During the year, Vietnam currency has been depreciated from USD/VND16,010 to USD/VND17,494. The inflation rate was recorded to be 22.97%.

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 in Vietnam are exported and we receive 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 labor and energy cost are paid by the depreciated VND which have been exchanged by a lesser amount of USD. Only about 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.

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 earthquake that occurred in the Sichuan Province in May 2008. We donated cash and bedding in the total amount of RMB4.18 million 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.

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 2008. Turnover of the Group by products are shown as below.

	2008 *RMB'000*	**% of total**	**2007** *RMB'000*	**% of total**	**Change between 2008 and 2007**
Yarn	2,622,599	70.2%	2,126,443	65.4%	23.3%
Grey fabrics	892,418	23.9%	989,880	30.4%	(9.8%)
Dyed/Garment fabrics	128,895	3.4%	119,972	3.7%	7.4%
Other textile products	93,729	2.5%	17,814	0.5%	426%
Total	3,737,641	100%	3,254,109	100%	14.9%

Yarn continued to be the Group's top selling products with sales amount increased by 23.3%, reaching a record high sales value of RMB2,622.6 million in 2008. Sales of grey fabrics decreased by 9.8%. During the year, 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 year.

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 RMB434.8 million to RMB458.9 million, representing an increase of 5.6% compared to last year.

Nevertheless, the worldwide economic recession starting from the last quarter of 2008 and the sluggish export markets affecting our downstream customers have indirectly led to a drop in average selling prices of the Group's products. The above pressures on selling prices have resulted in a drop of gross profit margin by 1.1% to 12.3% in 2008.

Cost structure

Cost of sales increased by 16.3% to RMB3,278.7 million. Besides the increase in production volume, the rise in raw material costs (particularly cotton) during the first half of 2008 has also led to an increase in the proportion of raw material costs to the Group's total manufacturing costs.

Selling and distribution costs

For the year ended 31 December 2008, the Group's selling and distribution costs amounted to RMB91.3 million, representing an increase of 20.3% 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 13.7% to RMB164.2 million, which amounted to 4.4% of the Group's turnover. The increase was in line with the increase in sales volume.

Cash flow

	2008	**2007**
	RMB'000	*RMB'000*
Net cash generated from operating activities	374,490	173,640
Net cash used in investing activities	(328,164)	(486,341)
Net cash inflow from financing activities	67,071	372,429
Cash and cash equivalents at 31 December	313,012	199,615

For the year ended 31 December 2008, net cash generated from operating activities amounted to RMB374.5 million. The increase in net cash inflow from operating activities was mainly due to the increase of inventory during the period was much less than that of 2007. On the other hand, the increase of trade and bill receivable is much less than that of 2007 as a result of more prudent trade credit policy. The net cash used in investing activities amounted to RMB328.2 million, which was mainly used for the payment of machinery and other capital expenditures of the Phase II of the Group's new production base in Vietnam. During the year under review, the net cash inflow from financing activities amounted to RMB67.1 million, representing the net increase in bank borrowings.

Liquidities and financial resources

As at 31 December 2008, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB334.6 million (as at 31 December 2007: RMB210.4 million) As a result of business expansion in 2008, the Group's inventories and trade and bills receivables increased by RMB38.1 million and RMB99.3 million to RMB690.0 million and RMB464.1 million, respectively (as at 31 December 2007: RMB651.9 million and RMB364.8 million). The inventory turnover days and trade receivable turnover days were 75 days and 41 days respectively, compared to 71 days and 33 days in 2007. The increase in inventory turnover days was due to an increase in the inventory level of cotton in 2008 for the new production facilities in Vietnam, which has just been in full commercialized production since the beginning of 2009.

To cater for capital expenditure requirement as a result of the Group's business expansion in Vietnam, the Group's total bank borrowings increased by RMB149.0 million to RMB1076.9 million as at 31 December 2008. Short-term bank borrowings was increased by RMB297.3 million to RMB522.6 million while long-term bank borrowings was decreased by RMB148.3 million to RMB554.3 million.

As at 31 December 2008, the Group's financial ratios were as follows:

	2008	**2007**
Current ratio	1.13	1.53
Debt to equity ratio	0.88	0.86
Net debt to equity ratio	0.60	0.67

Borrowings

As at 31 December 2008, the Group's total bank borrowings amounted to RMB1076.9 million. Among which, RMB226.0 million (21.0%) were denominated in Renminbi and RMB850.9 million (79.0%) were denominated in United States dollars. These loans borne interest at interest rates ranging from 2.8% to 7.9% per annum (2007: 6.1% to 7.2%).

As at 31 December 2008, the Group has outstanding short-term borrowings of RMB522.6 million (2007: 225.2 million). The reason for the increase of the short-term borrowings was due to the fund raising for the working capital and business expansion, and the term period reclassification to short-term borrowings in 2008 from long-term borrowings in 2007.

In respect of the Group's borrowings, the Group has to comply with certain restrictive financial covenants. Details of these financial covenants are disclosed in the consolidated financial statements.

Foreign exchange risk

The Group mainly operates in the Mainland China and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in RMB and USD. Foreign exchange risk may also arise 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. 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 year ended 31 December 2008, the capital expenditure of the Group amounted to RMB416.0 million (2007: RMB502.2 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 2008, the Group had no material contingent liabilities.

Human resources

As at 31 December 2008, the Group had a total workforce of 13,207 (as at 31 December 2007: 14,952), of whom 10,349 were located throughout our 11 manufacturing plants in China, 172 were based in regional headquarter in Shanghai, 2,682 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 do not propose any final dividend for the year ended 31 December 2008.

Closure of register of members

The Register of Members of the Company will be closed from 8 May 2009 to 15 May 2009, both days inclusive, during which period no transfer of shares can be registered. To qualify for attendance at the forthcoming Annual General Meeting, shareholders must ensure that all transfer documents accompanied by the relevant share cer tificates 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 7 May 2009.

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 2008.

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 to the prevailing Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited. In light of various amendments to the Listing Rules, particularly Appendix 14 thereto, which became effective on 1 January 2009, on 1 April 2009, the Company adopted the code provisions set out in the Code on Corporate Governance Practices ("New CG Code") contained in Appendix 14 to the Listing Rules with retrospective effect from 1 January 2009. 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. In light of various amendments to the Listing Rules, particularly the Model Code, which became effective on 1 January 2009, on 1 April 2009, the Company adopted a revised code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards under the revised Model Code with retrospective effect from 1 January 2009.

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. In light of various amendments to the Listing Rules, particularly Appendix 14 thereto, which became effective on 1 January 2009, on 1 April 2009, the Company adopted a revised written terms of reference with reference to the corresponding changes made to the code provisions of the New CG Code on 1 April 2009 with retrospective effect from 1 January 2009. 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.

The audit committee has discussed with management and reviewed the annual results for the year ended 31 December 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, namely, 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 2008 containing all the information required by 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 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
1 April 2009

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.