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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 2009

FINANCIAL HIGHLIGHTS

- Revenue increased by 9.4% to RMB4,088 million.
- Gross profit margin increased 2.4 percentage point to 14.7%.
- Net profit margin increased 1.3 percentage point to 7.0%.
- Profit for the year set a record high since incorporation, it increased approximately 33.3% to RMB286 million.
- Profit for the year after excluding other income and exchange gain on financing activities increased 182% to RMB263 million.
- Earnings per share increased 33.3% to RMB0.32.
- The total of 210,000 spindles production capacity at our subsidiary in Vietnam has been put into full and efficient production. This subsidiary ranked first in terms of profitability among the subsidiaries of the Company during the year.

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 2009, together with the comparative figures in 2008.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	Note	**2009** *RMB'000*	2008 *RMB'000*
Revenue	*2*	**4,088,436**	3,737,641
Cost of sales	*4*	**(3,487,176)**	(3,278,706)
Gross profit		**601,260**	458,935
Selling and distribution costs	*4*	**(114,242)**	(91,277)
General and administrative expenses	*4*	**(143,891)**	(164,204)
Other income	*3*	**20,670**	66,156
Other losses – net	*3*	**(1,101)**	(4,831)
Operating profit		**362,696**	264,779
Finance income		**3,985**	3,947
Finance costs		**(49,136)**	(3,392)
Finance (costs)/income – net	*5*	**(45,151)**	555
Share of profit /(loss) of an associate		**286**	(16,966)
Profit before income tax		**317,831**	248,368
Income tax expense	*6*	**(32,266)**	(34,175)
Profit for the year		**285,565**	214,193
Other comprehensive income		**–**	–
Total comprehensive income for the year, attributable to equity holders of the Company		**285,565**	214,193
Basic earnings per share for profit attributable to equity holders of the Company during the year (expressed in RMB per share)	*7*	**0.32**	0.24
Dividends	*8*	**85,651**	–

CONSOLIDATED BALANCE SHEET
As at 31 December

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Land use rights		**154,483**	116,482
Property, plant and equipment		**1,435,545**	1,467,211
Investment in an associate		**34,858**	34,572
Deferred income tax assets		**2,601**	4,855
		1,627,487	1,623,120
Current assets			
Inventories		**714,655**	690,026
Trade receivables	9	**175,146**	78,124
Bill receivables	9	**260,319**	385,989
Prepayments, deposits and other receivables		**112,193**	87,351
Pledged bank deposits		**15,899**	21,570
Cash and cash equivalents		**392,003**	313,012
		1,670,215	1,576,072
Current liabilities			
Trade and bill payables	10	**510,602**	631,068
Accruals and other payables		**282,741**	226,762
Current income tax liabilities		**8,798**	8,018
Borrowings		**707,869**	522,607
Derivative financial instruments		**305**	7,915
		1,510,315	1,396,370
Net current assets		**159,900**	179,702
Total assets less current liabilities		**1,787,387**	1,802,822
Non-current liabilities			
Borrowings		**276,585**	554,267
Deferred income tax liabilities		**24,137**	20,173
		300,722	574,440
Net assets		**1,486,665**	1,228,382
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**94,064**	94,064
Reserves		**1,392,601**	1,134,318
Total equity		**1,486,665**	1,228,382

NOTES:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

The Group is principally engaged in the manufacturing and sale of yarn, grey fabrics and garment 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 registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681 Grand Cayman, KY1-1111, Cayman Islands.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 December 2004.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Company's Board of Directors on 26 March 2010.

The consolidated financial statements of the Company 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, 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.

Changes in accounting policy and disclosures

(i) New Standards and amendments to Standards that are effective in 2009 and have been adopted by the Group

- HKAS 1 (revised) "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 7 (amendment) "Financial Instruments – Disclosures". The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- HKFRS 8, "Operating segments". HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has applied HKFRS 8 from 1 January 2009 and reportable segments are divided by both product and geographical perspectives, which is consistent with the internal reporting provided to the chief operating decision-maker. Comparatives for 2008 have been restated.

- HKAS 23 (Revised) "Borrowing costs". It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (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 amendment has no significant impact on the Group's accounting policies as the Group's existing accounting policy on borrowing costs comply with the amended requirements.

- HKFRS 2 (Amendment) "Share based payment" – Vesting conditions and cancellation. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of the revised standard does not have any significant impact on the Group's financial statements.

(ii) Amendments to Standards and interpretations to existing Standards that are effective in 2009 but do not have significant impact to the Group

- HKAS 32 and HKAS 1 (Amendment), "Puttable financial instruments and obligations arising on liquidation"
- HKFRS 1 and HKAS 27 (Amendment), "Cost of an investment in a subsidiary, jointly controlled entity or associate"
- HK(IFRIC)-Int 9 (Amendment), "Reassessment of embedded derivatives" and HKAS 39 (Amendment), "Financial instruments: Recognition and measurement"
- HK(IFRIC)-Int 13, "Customer loyalty programmes"
- HK(IFRIC)-Int 15, "Agreements for the construction of real estate"
- HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation"
- HK(IFRIC)-Int 18 – Transfer of assets from customers
- The first annual improvements project to HKFRSs issued in October 2008 by HKICPA, except for amendment to HKFRS 5

(iii) Amendments to or new standards that are not effective in 2009 and have not been early adopted by the Group

- HKAS 27 (Revised) "Consolidated and separate financial statements". The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. In this respect, there is no change from the Group's existing accounting policy. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions when control is lost starting from 1 January 2010.

- HKFRS 3 (Revised) "Business combinations". The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination achieved in stages, the acquiree at its fair value at the date of control is obtained, recognising a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group will adopt HKFRS 3 (Revised) prospectively to all business combinations starting from 1 January 2010.

- HKFRS 9 "Financial instruments". Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group will adopt HKFRS 9 starting from 1 January 2013.

- The Group is in the process of making an assessment of the impact of the following new Standards, amendments to Standards and interpretations to existing Standards upon initial application. It is expected that these new Standards, amendments to Standards and interpretations to existing Standards are unlikely to have a significant impact on the Group's results of operations and financial position.

		Effective for annual periods beginning on or after
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
HKAS 39 (Amendment)	Eligible hedge items	1 July 2009
HKFRS 1 (Amendment)	Presentation of financial statements (additional exemptions for first time adopters)	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction	1 January 2010
HK(IFRIC)-Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC)-Int 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010

(iv) HKICPA's improvements to HKFRS

Amendment to HKFRS 5 as part of the HKICPA's first annual improvements project to HKFRS has been published in October 2008 and HKICPA's second annual improvements project to HKFRS have been published in May 2009. These improvements to HKFRS have introduced certain amendments to those standards set out below. These amendments are not effective in 2009 and have not been early adopted. The Group is assessing the impact of these amendments. The Group will apply these amendments from 1 January 2010.

- HKAS 1 (Amendment) "Presentation of financial statements"
- HKAS 7 "Statement of cash flows"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"
- HKAS 39 "Financial instruments: Recognition and measurement"
- HKFRS 2 "Share-based payment"
- HKFRS 5 "Non-current assets held for sale and discontinued operations"
- HKFRS 8 "Operating segments"
- HK(IFRIC)-Int 9 "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 16 "Hedges of a net investment in a foreign operation"
- HK(IFRIC)-Int 4 "Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

2. REVENUE AND SEGMENT INFORMATION

(i) Revenue

The Group is principally engaged in the manufacturing and sale of yarns, grey fabrics and garment fabrics. Revenue / Turnover recognised represented sales of goods, net of value-added tax.

(ii) Segmental information

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

The Committee of Executive Directors considers the business from both a product and geographical perspectives. From a product perspective, management assesses the performance from sales of yarn, grey fabrics and garment fabrics. The operations are further evaluated on a geographic basis including Mainland China, Vietnam and other territories.

The Committee of Executive Directors assesses the performance of the operating segments based on revenue and operating profit.

The segment information for the year ended 31 December 2009 is as follows:

	Yarn			Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	**Vietnam** *RMB'000*	**Other territories** *RMB'000*	**Mainland China** *RMB'000*	**Mainland China** *RMB'000*	**Total** *RMB'000*
Total revenue	**3,150,612**	**1,161,548**	**721,100**	**770,874**	**120,053**	**5,924,187**
Inter-segment revenue	**(306,949)**	**(822,293)**	**(706,509)**	**–**	**–**	**(1,835,751)**
Revenue (from external customers)	**2,843,663**	**339,255**	**14,591**	**770,874**	**120,053**	**4,088,436**
Segment results	**182,970**	**159,077**	**(8,734)**	**20,469**	**15,897**	**369,679**
Unallocated expenses						**(6,983)**
Operating results						**362,696**
Finance income						**3,985**
Finance costs						**(49,136)**
Share of profit of an associate						**286**
Income tax expense						**(32,266)**
Profit for the year						**285,565**
Depreciation and amortisation	**(58,960)**	**(40,876)**	**(283)**	**(19,944)**	**(3,050)**	**(123,113)**

The segment information for the year ended 31 December 2008 is as follows:

	Yarn			Grey fabrics	Garment fabrics	
	Mainland China *RMB'000*	Vietnam *RMB'000*	Other territories *RMB'000*	Mainland China *RMB'000*	Mainland China *RMB'000*	Total *RMB'000*
Total revenue	2,741,423	546,293	684,792	909,775	128,895	5,011,178
Inter-segment revenue	(222,315)	(387,308)	(663,914)	–	–	(1,273,537)
Revenue (from external customers)	2,519,108	158,985	20,878	909,775	128,895	3,737,641
Segment results	216,518	33,355	(14,251)	22,484	14,359	272,465
Unallocated expenses						(7,686)
Operating results						264,779
Finance income						3,947
Finance costs						(3,392)
Share of profit of an associate						(16,966)
Income tax expense						(34,175)
Profit for the year						214,193
Depreciation and amortisation	(53,493)	(17,443)	(245)	(21,993)	(3,140)	(96,314)

The segment assets and liabilities as at 31 December 2009 are as follows:

	Yarn				**Grey fabrics**	**Garment fabrics**	
	Mainland China	**Vietnam**	**Other territories**	**Sub-total**	**Mainland China**	**Mainland China**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Total segment assets	**1,738,945**	**972,994**	**35,502**	**2,747,441**	**451,783**	**96,281**	**3,295,505**
Unallocated assets							**2,197**
Total assets of the Group							**3,297,702**
Total segment liabilities				**(1,238,149)**	**(111,267)**	**(14,940)**	**(1,364,356)**
Unallocated liabilities							**(446,681)**
Total liabilities of the Group							**(1,811,037)**
Capital expenditure	**67,486**	**57,141**	**447**	**125,074**	**7,765**	**1,891**	**134,730**

The segment assets and liabilities as at 31 December 2008 are as follows:

	Yarn				Grey fabrics	Garment fabrics	
	Mainland China	Vietnam	Other territories	Sub-total	Mainland China	Mainland China	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	1,712,808	827,432	44,818	2,585,058	523,899	84,533	3,193,490
Unallocated assets							5,702
Total assets of the Group							3,199,192
Total segment liabilities				(1,259,911)	(120,454)	(7,850)	(1,388,215)
Unallocated liabilities							(582,595)
Total liabilities of the Group							(1,970,810)
Capital expenditure	103,259	303,389	19	406,667	8,562	724	415,953

3. OTHER INCOME AND OTHER LOSSES, NET

	2009	2008
	RMB'000	*RMB'000*
Other income		
Subsidy income *(Note)*	**15,077**	33,149
Government grants relating to the relocation of a subsidiary	**2,624**	18,370
Consulting income	**–**	11,691
Re-investment incentives based on income tax paid	**983**	2,946
Compensation from insurance company	**1,986**	–
Total other income	**20,670**	66,156
Other losses – net		
Derivative financial liability at fair value through profit or loss:		
– Unrealised loss	**(305)**	(7,915)
– Realised loss	**(1,605)**	(6,991)
Net foreign exchange (losses)/gains	**(1,481)**	5,001
Others	**2,290**	5,074
Total other losses – net	**(1,101)**	(4,831)

Note:

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

4. EXPENSES BY NATURE

	2009	2008
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**28,966**	(59,399)
Raw materials and consumables used	**2,877,017**	2,823,298
Employment costs	**313,160**	302,138
Depreciation and amortisation	**123,113**	96,314
Loss on disposal of property, plant and equipment and land use rights	**2,714**	2,194
Office expense	**20,239**	20,731
Utilities	**226,147**	193,437
Transportation	**90,114**	67,387
Auditor's remuneration	**4,097**	3,586
Lease rental expense of buildings and machinery	**11,903**	12,751
(Reversal of)/Provision for impairment of trade receivables	**(4,294)**	2,612
(Reversal of)/Provision for inventory obsolescence	**(9,393)**	6,843
Other expenses	**61,526**	62,295
Total cost of sales, selling and distribution costs and general and administrative expenses	**3,745,309**	3,534,187

5. FINANCE INCOME AND COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expense – bank borrowings wholly repayable within five years	**52,243**	64,306
Less: amount capitalised in property, plant and equipment	**(1,631)**	(6,275)
	50,612	58,031
Exchange gain on financing activities	**(1,476)**	(54,639)
Finance costs	**49,136**	3,392
Finance income – interest income on bank deposits	**(3,985)**	(3,947)
Net finance costs/(income) – net	**45,151**	(555)

6. INCOME TAX EXPENSE

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

	2009	2008
	RMB'000	*RMB'000*
Mainland China enterprise income tax		
– Current	**26,210**	27,823
– Overprovision in prior years	**(162)**	(1,495)
Deferred income tax	**6,218**	7,847
	32,266	34,175

(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 (2008: Nil).

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

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 20% to 25% during the year (2008: 18% to 25%).

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 the 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% (2008: 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 from the first profitable year after offsetting the losses carried forward from the previous years. The Group is exempted from Vietnam income tax during the year (2008: nil) as year 2008 is the first profit making year after offsetting prior years' losses.

(iv) Other income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the 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 then International Business Companies Acts on the Business Companies Acts, 2004 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% (2008: 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 (2008: 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.

	2009	2008
Profit attributable to equity holders of the Company *(RMB'000)*	**285,565**	214,193
Weighted average number of ordinary shares in issue *(thousands)*	**884,681**	884,425
Basic earnings per share *(RMB per share)*	**0.32**	0.24

(b) Diluted

Diluted earnings per share is not presented as there were no dilutive ordinary shares.

8. DIVIDENDS

A final dividend in respect of the year ended 31 December 2009 of HKD0.075 per share, amounting to HKD66,351,000 (equivalent about RMB58,369,000), is to be proposed for shareholders' approval at the upcoming Annual General Meeting. The dividend payable has not been included in the consolidated financial statements.

	2009	2008
	RMB'000	*RMB'000*
Interim dividend paid of HKD0.035 (2008: Nil) per ordinary share	**27,282**	–
Proposed final dividend of HKD0.075 (2008: Nil) per ordinary share	**58,369**	–
	85,651	–

9. TRADE AND BILL RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**178,082**	85,354
Less: provision for impairment	**(2,936)**	(7,230)
Trade receivables, net	**175,146**	78,124
Bill receivables	**260,319**	385,989
Trade and bill receivables – net	**435,465**	464,113

The Group generally grants credit terms of less than 90 days to its customers in Mainland China and 120 days to its customers in other countries. The ageing analysis of the trade and bill receivables by invoice date is as follows:

	2009	2008
	RMB'000	*RMB'000*
0 to 30 days	**229,247**	281,255
31 to 90 days	**119,999**	107,647
91 to 180 days	**85,516**	75,692
181 days to 1 year	**1,027**	1,551
Over 1 year	**2,612**	5,198
	438,401	471,343
Less: provision for impairment	**(2,936)**	(7,230)
Trade and bill receivables – net	**435,465**	464,113

10. TRADE AND BILL PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**479,972**	537,927
Bill payables	**30,630**	93,141
	510,602	631,068

As at 31 December 2009, the ageing analysis of the trade and bill payables (including amount due to an associate of trading in nature) is as follows:

	2009	2008
	RMB'000	*RMB'000*
0 to 90 days	**326,513**	205,966
91 to 180 days	**180,288**	211,575
181 days to 1 year	**1,324**	208,952
Over 1 year	**2,477**	4,575
	510,602	631,068

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present the annual results of the Group for the year ended 31 December 2009 to the shareholders. During the period under review, the Group encountered severe pressure in terms of sales resulting from the drastic reduction in the selling prices of our products early this year caused by the global financial crisis, coupled with the expansion in production capacity following the full operation of the 210,000 spindles in our plant in Vietnam. Nonetheless, with the concerted efforts of the entire staff in expanding our market and the consistent high quality of our products and services, the Group was able to gain additional market share and secure a sustainable growth in turnover of 9.4% to RMB4,088 million against the current of depression from the corresponding period last year. Profit for the year set a record high since incorporation, increased by 33.3% to RMB286 million from the corresponding period last year. During the corresponding period last year, the Group recorded other income and exchange gain on financing activities totaling RMB121 million. Even though the amount of non-recurring income of these kinds declined substantially during the year, profit for the year net of the above mentioned non-recurring income, still increased by 182% to RMB263 million from the corresponding period last year. Earnings per share for the year increased by 33.3% to RMB0.32 from RMB0.24 for the corresponding period last year.

Industry Review

In 2009, the textile industry in the PRC has gone through the hardest time during the financial crisis and resumed stable growth under the push of the national macro-economic policies. According to the National Bureau of Statistics of China, investment in large-scale projects (RMB5 million or above) in the textile industry in 2009 amounted to RMB310.2 billion, representing an increase of 13.86% as compared with 2008.

The increase in production volume of the major products sped up while the decline in import and export trade slowed down, and the upper and lower stream cotton textile industry has gradually rebounded. The PRC is a major producer and exporter of textile. After years of development, the PRC textile industry has gained considerable competitive strength and is equipped with the most comprehensive industry chain and the highest processing and auxiliary quality in the world. China's export of textile products for 2009 amounted to US$167 billion, representing a year-on-year decrease of 10.1%. From January to February 2010, the accumulated amount of export of textile products reached US$28.24 billion, representing a year-on-year increase of 29.0%, of which a total export of textile products of US$12.64 billion was recorded for February 2010, representing a year-on-year increase of 89.3%. Domestic sales value of 2009 amounted to RMB3.7 trillion, jumped by 10.6% from 2008. These statistics provided evidence of the significant growth in investment and sales of the industry in the PRC. In 2009, domestic demand was the key driving force behind the stabilization and rebound of the textile industry. Many well-established enterprises and conglomerates in the industry have strengthened their self-adjustment ability to mitigate market risks, which also laid a sound foundation for the healthy growth of the industry.

Business Review

For the year ended 31 December 2009, the turnover of the Group was RMB4,088 million, representing an increase of 9.4% as compared with the corresponding period last year. The turnover comprises sales of yarns, grey fabrics and garment fabrics. Yarns continued to be the major product of the Group. Turnover thereof amounted to RMB3,198 million accounted for 78.2% of the Group's total turnover. Sales volume of yarns, increased by 39.2% to 172,000 tonnes. It was mainly due to the efforts of the Group on exploiting the domestic denim yarn market, which helped to utilize the additional production capacity in our plant in Vietnam, and such effort was widely accepted by our customers and contributed to the expansion in our sales volume. The turnover of our grey fabrics amounted to RMB771 million and accounted for 18.9% of the Group's total turnover. The Group has commenced the restructuring of its grey fabrics business since late 2008 and has foregone, relocated or modified our air-jet looms with low economic efficiency, and such action has started to bring return by the third quarter of 2009. Although the restructuring has reduced the sales volume of our grey fabrics by 5.4% to 93.3 million meters from the corresponding period last year, it has also reduced our inventory level of grey fabrics and helped us with the reposition of our products and the stabilization of the grey fabrics business.

The overall profit margin of our products increased to 14.7% from 12.3% for the corresponding period last year. Even though early 2009 has been the most difficult time for our operation as demand and selling prices of products dropped to historic trough due to the outburst of the financial crisis, demand and selling prices gradually resumed from March 2009. Meanwhile, the strengths of our plant in Vietnam in terms of low production costs have been brought into full play. The combined effect of the above boosted the profit margin of our yarns and resulted in an increase in our overall net profit margin for the year by 1.3 percentage point against the adverse market environment in 2009.

On 19 October 2009, the Group held the foundation laying ceremony of the Xuzhou Texhong Times Textile Co., Ltd. (徐州天虹時代紡織有限公司) Phase II 70,000 spindles expansion project in Xuzhou, the PRC. The whole project is expected to be completed and commenced full production by the third quarter of 2010, thereby effectively satisfying our customer's demand for our core-spun yarns, while our plant in Vietnam can focus more on the production of denim yarns. This development paves the way for our division of labour and specialization of each plant and contributed to the improvement in our overall profitability. To increase our production capacity of denim yarns, the Group has installed new cotton combing and carding machinery in our plant in Vietnam in late 2009 and it is well prepared to produce more yarns in 2010. Currently, the production capacity of denim yarns of our plant in Vietnam has jumped by one-thirds as compared with 2009.

The Group has further strengthened the strategic cooperation with Dow Chemical and Lenzing Fibers (Shanghai) Co., Ltd. In 2009, the Group has successfully applied the second generation olefin-based XLA™ fiber technology invented by Dow Chemical to the production of stretch yarns for making high-end yarn-dyed fabrics, high end denim fabrics, high-end casual wear fabrics and high-end uniform fabrics. The Group also produced different high-end non-spandex core-spun yarns, high-end denim yarn and high-end knitted yarns using the cellulose-based Tencel® fiber, Modal® fiber and viscose fiber materials supplied by Lenzing Fibers. These unique products have received overwhelming market response and success, and have helped our Group to gain more international prestigious customers, such as cooperation with Toray of Japan to produce high-end knitted yarn. Our research and development centre in Changzhou has been developing and improving a wide variety of products in order to secure our leading position in the industry and meet the demand of quality customers for different high-end products.

FUTURE OUTLOOK

In view of the continuous expansion in domestic demand, gradual recovery in the export of textile and garments as well as the stabilization in the global market sentiment, we believe that the textile industry of the PRC is recovering. Also, due to the increasing demand in the PRC for quality garments and fabrics, the domestic demand for core-spun cotton yarns is expected to increase in tandem with the expansion in consumption. The management believes that in the foreseeable future, demand for the major products of the Group will be on the rise.

We substantially realized a hundred percent utilization of our production capacity during the most severe depression in 2009 and focused on increasing the production of denim yarns. Such move was well received by the customers of our denim yarn business and has built up a considerable customer base for the further expansion of our sales of high value-added stretch core-spun denim yarns in 2010. Based on our belief that there is enormous demand and potential in the denim yarns market and that our plant in Vietnam has manifested its edges in costs, the management is actively planning a rapid raise of the production capacity of our plant in Vietnam so as to fetch a bigger market share in the denim yarn market and therefore strengthen our overall competitiveness and profitability.

The Group was awarded as one of the top 20 enterprises in the Chinese cotton textiles industry for 2008-2009 by China National Textile and Apparel Council on 10 August 2009. Looking forward, we aim at improving our profitability through optimizing our existing product mix, developing new products that cater for the trend and demand of the market and utilizing the cost advantages of our plant in Vietnam. Coupled with our expansion of production capacity, we aim to sustain a high growth in profit and turnover and reinforce our competitiveness and leading position within the industry.

FINANCIAL REVIEW

Turnover

The Group's turnover comprises the sales of yarns, grey fabrics and garment fabrics. Due to the continuous strong domestic demand for high value-added core-spun cotton textile products and the efforts on actively exploiting the domestic denim yarn market in the PRC, the sales of yarns grew by about 18.5% in 2009. Turnover of the Group by products are shown below.

	2009	Gross profit margin	2008	Gross profit margin	Turnover change between 2009 and 2008	Margin change between 2009 and 2008
	RMB'000		*RMB'000*			
Stretch core-spun yarns	2,178,768	16.2%	2,036,937	14.8%	7.0%	1.4%
Other yarns	1,018,741	16.3%	662,034	10.4%	53.9%	5.9%
Stretch grey fabrics	524,935	9.4%	616,064	8.3%	(14.8)%	1.1%
Other grey fabrics	245,939	5.2%	293,711	6.3%	(16.3)%	(1.1)%
Dyed/garment fabrics	120,053	16.6%	128,895	14.7%	(6.9)%	1.9%
Total	4,088,436	14.7%	3,737,641	12.3%	9.4%	2.4%

Sales of grey fabrics decreased by 15.3% because of the business restructuring in place in 2009.

Gross profit and gross profit margin

Due to the rise in sales volume and the gain in market share in core-spun cotton textile products and denim yarns, gross profit of the Group increased from RMB459 million to RMB601 million, representing an increase of 30.9% compared to last year.

In spite of the severe challenges in the market at the beginning of 2009, the Group benefited from the cost advantages of out plant in Vietnam and the strong domestic demand for our products, the overall gross profit margin increased by 2.4 percentage point as compared with 2008. In particular, the gross margin of other yarns, which were mainly produced by our plant in Vietnam, increased significantly from 10.4% in 2008 to 16.3% in 2009.

Cost structure

Cost of sales increased by 6.4% to RMB3,487 million, which was in pace with the increase in sales. Raw material cost accounted for about 80.1% of the total cost of sales. Cotton is our major raw material.

Selling and distribution costs

For the year ended 31 December 2009, the Group's selling and distribution costs amounted to RMB114 million, representing an increase of 25.2% 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 decreased by 12.4% to RMB144 million, which amounted to 3.5% of the Group's turnover. The decrease was attributable to our efforts on cost control in 2009.

Cash flow

	2009	2008
	RMB'000	*RMB'000*
Net cash generated from operating activities	**368,031**	374,490
Net cash used in investing activities	**(120,715)**	(328,164)
Net cash inflow from financing activities	**(168,325)**	67,071
Cash and cash equivalents at 31 December	**392,003**	313,012

For the year ended 31 December 2009, net cash generated from operating activities amounted to RMB368 million. The decrease in net cash inflow from operating activities was mainly due to the drop in trade and bill payables. The net cash used in investing activities amounted to RMB121 million, which was mainly used for the payment of machinery and other capital expenditures of the Phase II construction of our plant in Vietnam and the land payment of a new factory under construction in Xuzhou, the PRC. During the year under review, the net cash outflow from financing activities amounted to RMB168 million, mainly representing the net repayment in bank borrowings and payment of interest.

Liquidities and financial resources

As at 31 December 2009, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB407.9 million (as at 31 December 2008: RMB334.6 million). As a result of business expansion in 2009, the Group's inventories increased by RMB24.7 million to RMB714.7 million and our trade and bill receivables decreased by RMB28.6 million to RMB435.5 million (as at 31 December 2008: RMB690.0 million and RMB464.1 million). The inventory turnover days and trade and bill receivable turnover days were 74 days and 40 days respectively, compared to 75 days and 41 days in 2008. The decrease in inventory turnover days was mainly attributable to the strong demand of our products leading to a drop in finished goods below normal level. The trade and bill receivable turnover days decreased because the Group took a more prudent trade credit policy to control the trade and bill receivables level despite a rapid growth in sales volume in 2009.

To make the capital structure more capable for the long-term development of the Group's business, the Group reduced the total bank borrowings by RMB92.4 million to RMB984.5 million as at 31 December 2009. Current bank borrowings increased by RMB185.3 million to RMB707.9 million while non-current bank borrowings decreased by RMB277.7 million to RMB276.6 million. Following completion of the new syndicated loan which is expected to be available in the second quarter of 2010, it is expected that the loan financing structure will be improved. A balance between current and non-current bank borrowings can be achieved.

As at 31 December 2009, the Group's financial ratios were as follows:

	2009	2008
Current ratio	**1.11**	1.13
Debt to equity ratio	**0.66**	0.88
Net debt to equity ratio	**0.39**	0.60

Borrowings

As at 31 December 2009, the Group's total bank borrowings amounted to RMB984.5 million, among which RMB347.5 million (35.3%) were denominated in Renminbi, RMB621.2 million (63.1%) were denominated in United States dollars, RMB 10.4 million (1.1%) were denominated in Hong Kong dollars and RMB5.4 million (0.5%) were denominated in Vietnam Dong. These bank borrowings borne interest at interest rates ranging from 1.5% to 6.8% per annum (2008: 2.8% to 7.9%).

As at 31 December 2009, the Group has outstanding current bank borrowings of RMB707.9 million (2008: RMB522.6 million). Current bank borrowings increased because the syndicated loan amounted to USD38 million will be due in June 2010. Following the completion of the new syndicated loan which is expected to be available in the second quarter of 2010, current bank borrowings are expected to be reduced.

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

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.

Capital expenditures

For the year ended 31 December 2009, the capital expenditure of the Group amounted to RMB134.7 million (2008: RMB416.0 million). It was mainly comprised of the purchases of machinery for our plant in Vietnam and the cost for buying a piece of land in Xuzhou, the PRC.

Contingent liabilities

As at 31 December 2009, the Group had no material contingent liabilities.

Human resources

As at 31 December 2009, the Group had a total workforce of 13,596 (as at 31 December 2008: 13,207), of whom 10,528 were located throughout our manufacturing plants in China, 176 were based in our regional headquarters in Shanghai, 2,887 were located at the Group's production base in Vietnam and 5 were based in Hong Kong and Macau. 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 skilled and motivated staff.

Dividend policy

The Board intends to maintain a long term, stable dividend payout ratio of about 30% of the Group's net profit for the year, providing shareholders with an equitable return. The Board has resolved to declare a final dividend of 7.5 HK cents per share in respect of the year ended 31 December 2009 to shareholders whose names appear on the register of members on 18 May 2010, subject to the approval by the shareholders at the forthcoming Annual General Meeting. An interim dividend of 3.5 HK cents was paid by the Company on 5 October 2009.

Closure of register of members

The Register of Members of the Company will be closed from 13 May 2010 to 18 May 2010, both days inclusive, during which period no transfer of shares can be registered. To qualify for attendance at the forthcoming Annual General Meeting and for the proposed final dividend, 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 12 May 2010.

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 2009.

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 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 to 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.

The audit committee has discussed with the management and reviewed the annual results for the year ended 31 December 2009.

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 2009 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
26 March 2010

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

Executive directors:	Mr. Hong Tianzhu Mr. Zhu Yongxiang Mr. Gong Zhao Mr. Tang Daoping
Independent non-executive directors:	Mr. Ting Leung Huel, Stephen Ms. Zhu Lanfen Prof. Cheng Longdi