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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

- Revenue increased by 15.7% to RMB10,191 million
- Gross profit margin decreased by 3.3 percentage points to 13.5%
- Net profit margin decreased by 2.1 percentage points to 4.8%
- Profit attributable to equity holders decreased by 21.8% to RMB471 million
- Earnings per share for the period decreased to RMB0.51
- The Board declared for the payment of an interim dividend of 18 HK cents per share

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	**2019**	2018
		RMB'000	*RMB'000*
Revenue	*2*	**10,191,466**	8,811,520
Cost of sales	*4*	**(8,810,615)**	(7,334,468)
Gross profit		**1,380,851**	1,477,052
Selling and distribution costs	*4*	**(384,493)**	(322,125)
General and administrative expenses	*4*	**(432,809)**	(323,167)
Net (accrual)/reversal of impairment losses on financial assets		**(2,717)**	2,506
Other income	*3*	**70,300**	93,032
Other gains/(losses) — net	*3*	**170,271**	(45,052)
Operating profit		**801,403**	882,246
Finance income	*5*	**17,781**	5,802
Finance costs	*5*	**(254,342)**	(201,572)
Finance costs — net		**(236,561)**	(195,770)
Share of profits less losses of investments accounted for using the equity method		**260**	8,704
Profit before income tax		**565,102**	695,180
Income tax expense	*6*	**(78,777)**	(88,782)
Profit for the period		**486,325**	606,398
Attributable to:			
Owners of the Company		**471,042**	602,411
Non-controlling interests		**15,283**	3,987
		486,325	606,398
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	*7*	**RMB0.51**	RMB0.66
— Diluted earnings per share	*7*	**RMB0.51**	RMB0.66

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**168,878**	1,011,183
Property, plant and equipment		**8,905,632**	7,716,921
Right-of-use assets		**1,238,432**	–
Intangible assets		**68,897**	70,728
Investments accounted for using the equity method		**204,967**	204,707
Deferred income tax assets		**106,741**	96,391
Other non-current assets		**–**	236,102
Total non-current assets		**10,693,547**	9,336,032
Current assets			
Inventories	*9*	**5,700,179**	5,211,292
Properties under development		**227,096**	226,058
Trade and bills receivables	*10*	**1,633,931**	1,783,774
Prepayments, deposits and other receivables		**787,423**	867,899
Derivative financial instruments	*12*	**170,809**	145,220
Pledged bank deposits		**45,802**	145,019
Cash and cash equivalents		**1,920,127**	1,054,721
Total current assets		**10,485,367**	9,433,983
Total assets		**21,178,914**	18,770,015
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		**96,709**	96,709
Share premium		**433,777**	433,777
Other reserves		**691,065**	712,893
Retained earnings		**5,809,438**	5,495,258
		7,030,989	6,738,637
Non-controlling interests		**602,179**	98,185
Total equity		**7,633,168**	6,836,822

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		**5,058,761**	4,875,187
Lease liabilities		**132,753**	–
Deferred income tax liabilities		**249,435**	161,690
Long-term payables		**199,240**	122,893
Total non-current liabilities		**5,640,189**	5,159,770
Current liabilities			
Trade and bills payables	*11*	**4,054,039**	3,522,714
Contract liabilities		**128,472**	88,272
Accruals and other payables		**706,149**	727,219
Current income tax liabilities		**69,847**	70,077
Borrowings		**2,761,400**	2,252,547
Derivative financial instruments	*12*	**94,120**	89,468
Lease liabilities		**33,289**	–
Finance lease obligations		**–**	831
Long-term payables due within 1 year		**58,241**	22,295
Total current liabilities		**7,905,557**	6,773,423
Total liabilities		**13,545,746**	11,933,193
Total equity and liabilities		**21,178,914**	18,770,015

NOTES:

1. GENERAL INFORMATION, BASIS OF PREPARATION AND ACCOUNTING POLICIES

Texhong Textile Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sales of yarn, grey fabrics and garment fabrics as well as garments.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO 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.

The notes contained in this announcement are extracted from the full set of the Company's condensed consolidated financial statements for the six months ended 30 June 2019 which have been prepared in accordance with HKAS 34 'Interim Financial Reporting'. The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of the Company for the year ended 31 December 2018, which have been prepared in accordance with HKFRSs.

The condensed consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated.

The condensed consolidated financial statements have been approved and authorised for issue by the board ("Board") of directors ("Directors") of the Company on 23 August 2019.

The condensed consolidated financial statements have not been audited.

The accounting policies applied for the preparation of the condensed consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new standards, amendments and interpretation of HKFRSs effective for the financial year ending 31 December 2019.

(a) New standards, amendments and interpretation of HKFRSs adopted by the Group in the first half of 2019

A number of new standards, amendments and interpretation to existing standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting HKFRS 16 'Leases'. The other new standards, amendments and interpretation did not give rise to any significant impact on the Group's financial statements. The impact of the adoption of the leasing standard and the new accounting policies are set out below:

(i) HKFRS 16 'Leases'

The Group has adopted HKFRS 16 'Leases' from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the simplified transition approach in the standard. The reclassifications and the adjustments arising from the new leasing standard are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.67%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease assets of RMB17,409,000 and finance lease obligations of RMB831,000 immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019
	RMB'000
Operating lease commitments (excluding leases relating to land use rights) disclosed as at 31 December 2018	**206,511**
Less:	
Short-term leases to be recognised on a straight-line basis as expenses	**(3,333)**
Low-value leases to be recognised on a straight-line basis as expenses	**(614)**
	202,564
Discounted using the lessee's incremental borrowing rate at the date of initial application, representing additional lease liabilities recognised as at 1 January 2019	**182,630**
Add:	
Reclassification of lease assets recorded under property, plant and equipment in relation to finance lease obligations	**17,409**
Reclassification of land use rights	**877,045**
Right-of-use assets recognised as at 1 January 2019	**1,077,084**

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid rental expenses relating to that lease recognised in the balance sheet as at 1 January 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Movements in right-of-use assets are analysed as follows:

	2019
	RMB'000
Right-of-use assets recognised as at 1 January 2019	**1,077,084**
Additions arising from acquisition of subsidiaries	**191,842**
Other additions	**3,992**
Disposals	**(2,393)**
Amortisation	**(31,819)**
Currency translation differences	**(274)**
Closing net book amount as at 30 June 2019	**1,238,432**

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 *RMB'000*	1 January 2019 *RMB'000*
Land use rights	**1,057,989**	877,045
Buildings and warehouses	**128,427**	142,020
Equipment and others	**52,016**	58,019
Total right-of-use assets	**1,238,432**	1,077,084
Current lease liabilities	**33,289**	34,309
Non-current lease liabilities	**132,753**	149,152
Total lease liabilities	**166,042**	183,461
Representing:		
Additional lease liabilities recognised		182,630
Reclassification of finance lease obligations to lease liabilities		831
		183,461

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment — decrease by RMB17,409,000
- freehold land and land use rights — decrease by RMB877,045,000
- right-of-use assets — increase by RMB1,077,084,000
- finance lease obligations — decrease by RMB831,000
- lease liabilities (current portion) — increase by RMB34,309,000
- lease liabilities (non-current portion) — increase by RMB149,152,000

There was no impact on retained earnings on 1 January 2019.

Impact on segment disclosures and profit

Total segment profit for the six months ended 30 June 2019, total segment assets and total segment liabilities as at 30 June 2019 all changed as a result of the change in accounting policy. The following segments were affected by the change in policy and the respective operating profit, segment assets and segment liabilities were increased/(decreased) by:

	Operating profit *RMB'000*	**Segment assets** *RMB'000*	**Segment liabilities** *RMB'000*
Yarns	**(1,391)**	**129,386**	**130,436**
Garment fabrics and Garments	**(308)**	**35,336**	**35,606**
	(1,699)	**164,722**	**166,042**

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 'Leases' and HK (IFRIC) 4 'Determining whether an Arrangement contains a Lease'.

The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and equipment. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments).

The lease payments are discounted using incremental borrowing rate of the Group which the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities;
- any lease payments made at or before the commencement date

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. None of the extension option was exercised in the six months ended 30 June 2019.

(ii) Annual Improvements to HKFRSs 2015–2017 Cycle which were finalised in December 2017:

- HKFRS 3 'Business Combinations' — clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.

- HKFRS 11 'Joint Arrangements' — clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

- HKAS 12 'Disclosure of Interests in Other Entities' — clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

- HKAS 23 'Borrowing Costs' — clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(iii) HK (IFRIC) 23 'Uncertainty over Income Tax Treatments', explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty;

- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored;

- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;

- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and

- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

While there are no new disclosure requirements, entities are reminded of the general requirement to provide information about judgements and estimates made in preparing the financial statements.

(iv) Amendments to HKFRS 9 regarding prepayment features with negative compensation, enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

(v) Amendments to HKAS 28 regarding long-term interests in associates and joint ventures, clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under HKFRS 9 'Financial Instruments' before applying the loss allocation and impairment requirements in HKAS 28 'Investments in Associates and Joint Ventures'.

(vi) Amendments to HKAS 19 regarding plan amendment, curtailment or settlement, clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:

- calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change

- recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling

- separately recognise any changes in the asset ceiling through other comprehensive income.

(b) The following new standard and amendments of HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2019 and have not been early adopted by the Group:

(i) HKFRS 17 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2021.

(ii) Amendments to HKAS 1 and HKAS 8 regarding definition of material, effective for annual periods beginning on or after 1 January 2020.

(iii) Amendments to HKFRS 3 regarding definition of a business, effective for annual periods beginning on or after 1 January 2020.

(iv) Revised Conceptual Framework for Financial Reporting, effective for annual periods beginning on or after 1 January 2020.

(v) Amendments to HKFRS 10 and HKAS 28 regarding sale or contribution of assets between an investor and its associate or joint venture, originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

2. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics as well as garments. Revenue recognised for the period represented sales of goods, net of value-added tax.

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 perspective. From a product perspective, management assesses the performance from sales of yarns, grey fabrics and garment fabrics as well as garments. The operations are further evaluated on a geographic basis including Mainland China (and Hong Kong), Vietnam, Turkey, Macao, Cambodia, Nicaragua and North America.

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

The segment information for the six months ended 30 June 2019 is as follows:

	Unaudited													
	Six months ended 30 June 2019													
	Yarns				Garment fabrics and Garments						Grey fabrics			Total
	Mainland China and Hong Kong	Vietnam	Turkey	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Macao	North America	Mainland China and Hong Kong	Vietnam	Macao	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	6,677,627	3,940,806	14,887	6,445,252	1,739,892	71,878	321,548	16,280	50,331	451,990	338,075	255,197	175,774	20,499,537
Inter-segment revenue	(327,832)	(3,671,855)	-	(5,348,876)	(98,928)	(71,810)	(296,113)	(16,280)	(48,328)	-	-	(255,143)	(172,906)	(10,308,071)
Revenue (from external customers)	6,349,795	268,951	14,887	1,096,376	1,640,964	68	25,435	-	2,003	451,990	338,075	54	2,868	10,191,466
Timing of revenue recognition														
— At a point in time	6,349,795	268,951	14,887	1,096,376	1,640,964	68	25,435	-	2,003	451,990	338,075	54	2,868	10,191,466
Segment results	243,772	342,890	(9,847)	(63,978)	53,501	(1,289)	(15,273)	(4,179)	324	7,160	14,674	17,419	1,361	586,535
Unallocated profits														214,868
Operating profit														801,403
Finance income														17,781
Finance costs														(254,342)
Share of profits less losses of investments accounted for using the equity method														260
Income tax expense														(78,777)
Profit for the period														486,325
Depreciation and amortisation	(175,794)	(161,303)	(1,253)	(240)	(32,072)	(8,489)	(22,680)	(3,579)	-	(5,490)	(6,527)	(12,978)	-	(430,405)

The segment information for the six months ended 30 June 2018 is as follows:

	Unaudited											
	Six months ended 30 June 2018											
	Yarns			Garment fabrics and Garments					Grey fabrics			Total
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Macao	Cambodia	Vietnam	Nicaragua	Mainland China and Hong Kong	Vietnam	Macao	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	6,182,663	3,431,328	6,750,324	1,081,836	19,631	68,544	220,967	15,273	384,449	255,741	180,922	18,591,678
Inter-segment revenue	(276,524)	(3,248,799)	(5,525,088)	–	(19,631)	(66,042)	(212,811)	(15,273)	–	(255,724)	(160,266)	(9,780,158)
Revenue (from external customers)	5,906,139	182,529	1,225,236	1,081,836	–	2,502	8,156	–	384,449	17	20,656	8,811,520
Timing of revenue recognition												
— At a point in time	5,906,139	182,529	1,225,236	1,081,836	–	2,502	8,156	–	384,449	17	20,656	8,811,520
Segment results	396,597	236,080	216,261	(3,791)	105	(3,412)	(14,412)	(198)	18,449	27,596	1,051	874,326
Unallocated profit												7,920
Operating profit												882,246
Finance income												5,802
Finance costs												(201,572)
Share of profits less losses of investments accounted for using the equity method												8,704
Income tax expense												(88,782)
Profit for the period												606,398
Depreciation and amortisation	(141,053)	(154,109)	(8)	(10,105)	–	(11,928)	(19,993)	(4,177)	(6,312)	(11,474)	–	(359,159)

The segment assets and liabilities as at 30 June 2019 are as follows:

	Unaudited															
	As at 30 June 2019															
	Yarn						Garment fabrics and Garments						Grey fabrics			Total
	Mainland China and Hong Kong	Vietnam	Macao	Turkey	North America	Sub-total	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Macao	North America	Mainland China and Hong Kong	Vietnam	Macao	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	8,920,887	5,528,485	378,519	233,971	71,448	15,133,310	3,214,655	231,420	623,651	241,645	1,691	378,107	335,174	577,091	2,555	20,739,299
Unallocated assets																439,615
Total assets of the Group																21,178,914
Total segment liabilities						(6,350,349)	(1,884,445)	(62,975)	(437,594)	(136,830)	–	(228,047)	(60,254)	(357,830)	–	(9,518,324)
Unallocated liabilities																(4,027,422)
Total liabilities of the Group																(13,545,746)
Addition to non-current assets	479,791	81,089	1,426	134,167	71,206	767,679	39,456	543	25,240	132,242	–	366	3,272	153,226	–	1,122,024

The segment assets and liabilities as at 31 December 2018 are as follows:

	Audited											
	As at 31 December 2018											
	Yarn				Garment fabrics and Garments					Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Sub-total	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	North America	Mainland China and Hong Kong	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	8,639,123	5,575,259	227,768	14,442,150	1,599,261	220,583	548,605	143,851	359,266	362,660	440,756	18,117,132
Unallocated assets												652,883
Total assets of the Group												18,770,015
Total segment liabilities				(6,148,083)	(887,929)	(28,243)	(402,800)	(1,867)	(219,895)	(36,505)	(345,396)	(8,070,718)
Unallocated liabilities												(3,862,475)
Total liabilities of the Group												(11,933,193)
Addition to non-current assets	995,553	695,662	8	1,691,223	42,813	7,401	85,491	41,126	3,083	20,684	111,594	2,003,415

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

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Other income		
Subsidy income (a)	**70,300**	93,032
Other gains/(losses)		
Derivative financial instruments at fair value through profit or loss:		
— Realised losses	**(58,130)**	(46,566)
— Unrealised profits	**28,475**	21,064
Net foreign exchange losses	**(14,130)**	(30,865)
Gains on disposal of joint ventures	**–**	200
Gains on acquisition of subsidiaries	**209,019**	–
Others	**5,037**	11,115
Total other gains/(losses)	**170,271**	(45,052)

(a) The subsidy income represented grants provided by municipal governments based on the amounts of value added tax and income tax paid. The Group has received all the subsidy income in the same period and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

The following expenses items have been included in cost of sales, selling and distribution costs and general and administrative expenses in the condensed consolidated income statement.

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Cost of inventories	**6,834,196**	5,702,474
Employment benefit expenses	**1,290,163**	1,051,672
Utilities	**599,362**	473,865
Depreciation and amortisation	**430,405**	359,159
Transportation	**240,024**	202,424

5. FINANCE INCOME AND COSTS

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest expenses		
— borrowings	**220,409**	151,005
— lease liabilities	**3,155**	–
— finance lease obligations	**–**	123
	223,564	151,128
Net exchange losses on financing activities	**30,778**	50,444
Finance costs	**254,342**	201,572
Finance income — interest income on bank deposits	**(17,781)**	(5,802)
Net finance costs	**236,561**	195,770

6. INCOME TAX EXPENSE

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax on profits for the period	**84,179**	100,646
Deferred income tax	**(5,402)**	(11,864)
	78,777	88,782

(i) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2018: 16.5%).

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

Effective from 1 January 2008, the subsidiaries established in Mainland China are required to determine and pay the EIT in accordance with the Corporate Income Tax Law of the PRC (the "New CIT Law") as approved by the National People's congress on 16 March 2007 and Detailed Implementations Regulations of the New CIT Law (the "DIR") as approved by the State Council on 6 December 2007. According to the New CIT Law and DIR, subsidiaries established in Mainland China are subject to EIT at rate of 25% (2018: 25%).

As approved by the relevant tax bureau in Mainland China, two subsidiaries established in Changzhou and Zhanjiang are entitled to a preferential tax rate of 15% effective till 31 December 2020. A subsidiary established in Xuzhou is entitled to a preferential tax rate of 15% effective till 31 December 2019.

(iii) Vietnam income tax

The income tax for the major subsidiaries in Vietnam are as below:

As approved by the relevant tax bureau in Vietnam, Texhong Renze Textile Joint Stock Company established in Vietnam in 2006 should separately calculate income tax on its initial supplementary investments. The initial investment of the subsidiary is entitled to three years' exemption from income taxes followed by seven years of a 50% tax reduction and is entitled to a preferential income tax rate of 15% for 12 years. The first supplementary investment of the subsidiary is entitled to three years' exemption from income taxes followed by five years of a 50% tax reduction based on the income tax rate of 20% (2018: 20%). The second supplementary investment of the subsidiary is entitled to two years' exemption from income taxes followed by four years of a 50% tax reduction based on the income tax rate of 20% (2018: 20%).

As approved by the relevant tax bureau in Vietnam, Texhong Yinlong Technology Ltd., Texhong Galaxy Technology Limited and Texhong United Technology Vietnam Company Limited established in Vietnam in 2014, 2016 and 2018, respectively are entitled to four years' exemption for 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, and are entitled to a preferential income tax rate of 10% for 15 years, commencing from the first year generating income from the operation.

The applicable tax rates for all subsidiaries in Vietnam range from nil to 20% during the period (2018: nil to 20%).

(iv) Other income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies 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 or the Business Companies Acts, 2004 of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

The Company's subsidiary established in Macao is subject to income tax rate of 12% (2018: 12%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the period (2018: nil).

The Company's subsidiary established in Uruguay is subject to income tax rate of 25% (2018: 25%). No provision for Uruguay profits tax has been made as the Group had no assessable profit arising in or derived from Uruguay during the period (2018: nil).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 22% (2018: 22%). No provision for Turkey profits tax has been made as the Group had no assessable profit arising in or derived from Turkey during the period (2018: nil).

The Company's subsidiary acquired in Cambodia in 2017 is subject to income tax at the rate of 20% (2018: 20%). No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from Cambodia during the period (2018: nil).

The Company's subsidiary acquired in Nicaragua in 2017 is subject to income tax at the rate of 30% (2018: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiary is entitled to exemption from profits tax during the period (2018: exempted) and effective till 31 December 2020.

The Company's subsidiaries acquired in Samoa in 2017 are exempted from profits tax during the period (2018: exempted).

The Company's subsidiaries acquired in the USA in 2018 are subject to income tax rate within the range from 27.5% to 30% (2018: 27.5% to 30%).

The Company's subsidiaries acquired or established in Mexico in 2018 and 2019 are subject to income tax at the rate of 30% (2018: 30%).

7. EARNINGS PER SHARE

(a) Basic

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

	Unaudited Six months ended 30 June	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**471,042**	602,411
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Basic earnings per share (RMB per share)	**0.51**	0.66

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the Company's share options, a calculation is done 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.

	Unaudited Six months ended 30 June	
	2019	2018
Profit attributable to owners of the Company (RMB'000)	**471,042**	602,411
Weighted average number of ordinary shares in issue (thousands)	**915,000**	915,000
Adjustments for:		
— Share options (thousands)	**3,969**	1,911
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**918,969**	916,911
Diluted earnings per share (RMB per share)	**0.51**	0.66

8. DIVIDENDS

A final dividend of RMB158,936,000 that is related to the year ended 31 December 2018 was paid in May 2019 (2018: RMB156,160,000).

In addition, an interim dividend of HKD0.18 per share (2018: HKD0.23 per share) was proposed by the board of directors on 23 August 2019. It will be payable on or about 11 October 2019 to shareholders whose names are on the register on 25 September 2019. This interim dividend, amounting to RMB 144,887,000 (2018: RMB184,102,000), has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the financial statements of the Company for the year ending 31 December 2019.

9. INVENTORIES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Raw materials	**3,562,414**	3,473,769
Work-in-progress	**409,828**	338,350
Finished goods	**1,727,937**	1,399,173
	5,700,179	5,211,292

10. TRADE AND BILLS RECEIVABLES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade receivables	**879,324**	787,107
Less: provision for impairment	**(9,303)**	(6,588)
	870,021	780,519
Bills receivable	**763,910**	1,003,255
	1,633,931	1,783,774

As at 30 June 2019, no amount due from related parties was included in the trade receivables (31 December 2018: RMB5,131,000).

The fair values of trade and bills receivables approximate their carrying amounts.

As at 30 June 2019, no bills receivable was pledged as collateral for the Group's bank borrowings (31 December 2018: RMB97,526,000).

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 bills receivables (including amounts due from related parties of trading in nature) by invoice date is as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Within 30 days	**1,065,371**	1,099,220
31 to 90 days	**456,876**	592,707
91 to 180 days	**86,885**	82,290
181 days to 1 year	**23,727**	11,414
Over 1 year	**10,375**	4,731
	1,643,234	1,790,362
Less: provision for impairment	**(9,303)**	(6,588)
Trade and bills receivables — net	**1,633,931**	1,783,774

11. TRADE AND BILLS PAYABLES

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Trade payables	**730,871**	693,210
Bills payable	**3,323,168**	2,829,504
	4,054,039	3,522,714

As at 30 June 2019, included in the trade payables were amounts due to related parties of RMB16,128,000 (31 December 2018: RMB5,871,000).

The fair values of trade and bills payables approximate their carrying amounts.

The ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Within 90 days	**2,544,931**	2,356,142
91 to 180 days	**1,474,198**	1,155,029
181 days to 1 year	**26,582**	8,003
Over 1 year	**8,328**	3,540
	4,054,039	3,522,714

12. DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Assets:		
Forward foreign exchange contracts *(Note (a))*	**149,089**	125,609
Cross currency swap contracts *(Note (b))*	**21,720**	17,946
Cotton future contracts *(Note (c))*	**–**	1,665
	170,809	145,220
Liabilities:		
Forward foreign exchange contracts *(Note (a))*	**6,682**	18,562
Cross currency swap contracts *(Note (b))*	**70,155**	68,235
Cotton future contracts *(Note (c))*	**17,283**	2,671
	94,120	89,468

Non-hedging derivatives are classified as a current asset or liability.

Notes:

(a) The forward foreign exchange contracts as at 30 June 2019 comprised twenty-three contracts with notional principal amounts totalling RMB5,085,903,000 (31 December 2018: thirty-one contracts with notional principal amounts totalling RMB5,292,117,000).

(b) The cross currency swap contracts as at 30 June 2019 comprised thirty-five contracts with notional principal amounts totalling RMB5,687,130,000 (31 December 2018: twenty-six contracts with notional principal amounts totalling RMB4,622,139,000).

(c) The cotton future contracts as at 30 June 2019 comprised four contracts with notional principal amounts totalling USD9,234,000 (31 December 2018: eleven contracts with notional principal amounts totalling USD24,263,000).

OVERVIEW

The board of directors of the Company is pleased to present the unaudited consolidated financial results of the Group for the six months ended 30 June 2019 (the "Review Period") to the shareholders of the Company (the "Shareholders"). During the Review Period, except for a decrease in external sales of grey fabrics due to an increase in grey fabrics used in production of our garment fabrics, the other business segments recorded revenue growth. The Group's revenue increased by approximately 15.7% to approximately RMB10.19 billion, as compared with that for the corresponding period last year. However, profit attributable to equity holders for the Review Period decreased by approximately 21.8% to RMB471 million, as compared with that for the corresponding period last year. Earnings per share also decreased from RMB0.66 to RMB0.51 for the corresponding period last year. The year-on-year decrease in profit attributable to equity holders was primarily attributable to our response to the market demand affected by the trade friction between China and the United States, during which the Group's profitability was affected by its realignment of the product mix to maintain the utilization rate and sales volume during the Review Period. In particular, the gross profit margin of yarns fell to approximately 14.1% during the Review Period from approximately 18.3% for the corresponding period last year.

INDUSTRY REVIEW

As referred to in the sub-section headed "Management Discussion and Analysis — Industry Review" set out in the annual report of the Group for the financial year 2018, the trade friction between China and the United States have culminated in uncertainties that have completely dominated the market demand and sentiment of the Chinese textile industry during the Review Period.

According to the statistics from the National Bureau of Statistics of the PRC, between January and June 2019, enterprises with a sizeable capacity in the textile industry recorded an aggregate revenue of RMB1,235.44 billion from their principal activities, representing a year-on-year growth of 2.7%. Total profit for the industry amounted to RMB48.37 billion, representing year-on-year decrease of 0.1%. From January to June 2019, fixed asset investments in the textile industry in the PRC amounted to RMB314.0 billion, representing a year-on-year decrease of 0.3%.

According to the statistics from the General Administration of Customs of the PRC, between January and June 2019, the aggregate export of textiles and garments was US$124.231 billion, representing a decrease of 2.37%. Among these exports, US$58.620 billion was attributable to textiles and US$65.611 billion to garments, representing an increase of 0.66% and a decrease of 4.93% respectively. With respect to production volume, between January and June 2019, yarns, fabrics and synthetic fibre production amounted to 13.430 million tonnes, 22.80 billion metres and 28.037 million tonnes respectively, representing a year-on-year decrease of 19.76%, decrease of 14.67% and increase of 13.92% respectively.

According to the statistics from Vietnam Customs, between January and June 2019, the export volume of yarns and staple fibre manufactured in Vietnam increased by 9.3% to 795,000 tonnes, representing a growth of 1.9% in revenue to US$2.029 billion, while garments exports increased by 10.3% to US$15.092 billion.

BUSINESS REVIEW

Currently, the Group's revenue is mainly derived from sales of yarns, the percentage of which as of the Group's total revenue decreased in contrast to the development of the midstream and downstream business segments. During the Review Period, revenue from sales of yarns increased by approximately 5.7% to approximately RMB7.73 billion, however its percentage of the total revenue of the Group declined to approximately 75.8% from approximately 83.0% for the corresponding period last year. As for the midstream and downstream business segments, sales of woven fabrics witnessed the fastest growth with sales revenue exceeding RMB1.2 billion, representing a year-on-year increase of 2.9 times. This is mainly attributable to the acquisition of the trading business of fabrics in North America in the second half of 2018, as well as the business consolidation that took place in April 2019 following completion of the acquisition of Winnitex Limited and Zhejiang Qing Mao Weaving Dyeing & Printing Co., Ltd (Collectively "Winnitex Group") by the Group. Despite a satisfactory growth in the midstream and downstream business segments of the Group, there remains room for further improvement in sales and profitability.

Yarn operation

During the Review Period, the Group's production volume and sales volume of yarns amounted to approximately 366,000 tonnes and approximately 335,000 tonnes, respectively, representing an increase of 7.97% and 5.91% respectively as compared with the corresponding period last year. Due to the trade friction between China and the United States, the yarn market sentiment witnessed significant fluctuations during the Review Period, which required the Group to realign its product mix in a timely manner to accommodate market demands and therefore we are unable to implement the original production plan with the ideal product mix. This has not only affected the production volume and sales volume, but also affected the profit margin. During the Review Period, the gross profit margin of yarns was only 14.1%, down by 4.2 percentage points as compared with that of last year.

Grey fabrics operation

During the Review Period, the Group's sales volume of grey fabrics amounted to approximately 37.5 million metres, representing a decrease of approximately 15.2% as compared with the corresponding period last year. The decrease in sales volume was mainly attributable to an increase in usage of grey fabrics for production of our garment fabrics to approximately 13.6 million metres during the Review Period from approximately 7.8 million metres for the corresponding period last year. However, the impact of the trade friction between China and the United States also caused grey fabrics to drop in both external sales volume and profit margin. During the Review Period, the gross profit margin slightly decreased to approximately 15.3% from approximately 15.6% for the corresponding period last year.

Woven fabrics operation

Due to the acquisition of the trading business of fabrics in North America in the second half of 2018, as well as the business consolidation in April 2019 following completion of its acquisition of the woven fabrics business of Winnitex Group, the sales volume of self-produced and trading woven fabrics amounted to approximately 41.3 million metres and 21.7 million metres respectively. The sales revenue of woven fabrics has exceeded RMB1.2 billion, representing an increase of approximately 2.9 times as compared with the corresponding period last year. The gross profit margin substantially increased to 13.1% for the Review Period as compared with 2.8% for the corresponding period last year, mainly driven by a higher gross profit margin in the business operations of Winnitex Group. Despite the overhanging trade friction between China and the United States, there was no significant impact on the sales volume and profit of Winnitex Group resulting from its development of premium garment fabrics and strong vertically integrated production capacity. In terms of stability, this business segment has significantly outperformed other business segments of the Group.

Knitted fabrics operation

Growth in orders received for knitted fabrics slowed down due to unsatisfactory sales orders and performance at the PRC factory, during which, the gross profit margin also faced pressure. During the Review Period, sales revenue amounted to approximately RMB402 million, representing an increase of 2.8% as compared with the corresponding period last year, while the gross profit margin weakened to approximately 10.8% from approximately 14.5% for the corresponding period last year.

Jeanswear operation

The revenue of the jeanswear business grew to approximately RMB511 million, representing an increase of 30.4% as compared with that for the corresponding period last year, with an increase in terms of sales volume and product selling prices. The gross profit margin rose to approximately 7.1% during the Review Period from 2.8% for the corresponding period last year. However, the quality of orders and the production efficiency have to be further improved.

The operating data of the Group's products is set out below:

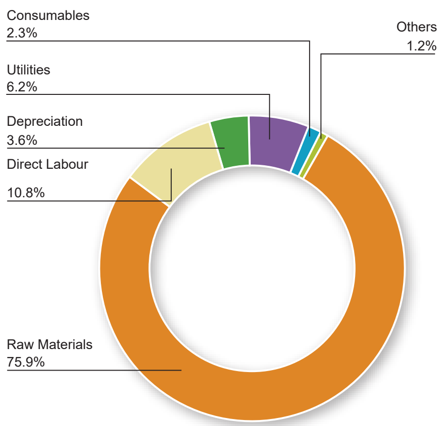
	Revenue from January to June 2019 *RMB'000*	Revenue from January to June 2018 *RMB'000*	**Revenue change**
Stretchable core-spun yarns	**3,885,272**	3,866,900	**0.5%**
Other yarns	**3,844,737**	3,447,004	**11.5%**
Stretchable grey fabrics	**277,274**	306,082	**–9.4%**
Other grey fabrics	**63,723**	99,040	**–35.7%**
Woven garment fabrics	**1,207,246**	309,232	**290.4%**
Knitted garment fabrics	**401,947**	391,052	**2.8%**
Jeans	**511,267**	392,210	**30.4%**
Total	**10,191,466**	8,811,520	**15.7%**

	Sales volume		**Selling price**		**Gross profit margin**	
	January to June 2019	January to June 2018	**January to June 2019**	January to June 2018	**January to June 2019**	January to June 2018
Stretchable core-spun yarns (Tonne/RMB per tonne)	**163,617**	162,659	**23,746**	23,773	**14.8%**	18.4%
Other yarns (Tonne/RMB per tonne)	**171,717**	153,958	**22,390**	22,389	**13.4%**	18.2%
Stretchable grey fabrics (Million metres/RMB per metre)	**29.3**	31.8	**9.5**	9.6	**15.0%**	14.2%
Other grey fabrics (Million metres/RMB per metre)	**8.2**	12.4	**7.8**	8.0	**16.9%**	19.9%
Woven garment fabrics (Million metres/RMB per metre)	**63.0**	21.2	**19.2**	14.6	**13.1%**	2.8%
Knitted Garment fabrics (Tonne/RMB per tonne)	**8,376**	8,406	**47,988**	46,521	**10.8%**	14.5%
Jeans (Million pairs/RMB per pair)	**9.1**	8.4	**56.2**	46.7	**7.1%**	2.8%

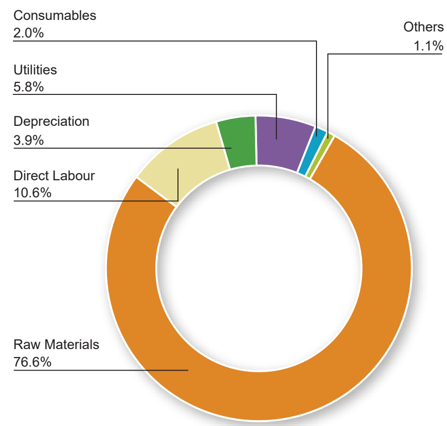
The overall gross profit margin of the Group decreased from 16.8% for the six months ended 30 June 2018 to 13.5% for the six months ended 30 June 2019. The decrease of gross profit margin was mainly due to the decrease of the gross profit margin of the yarn business.

Cost of sales increased by 20.1% to RMB8.81 billion when compared with the corresponding period last year mainly due to the increase in sales of yarns and garments fabrics. The cost of raw materials accounted for about 75.9% of the total cost of sales for the six months ended 30 June 2019. Cotton is one of the Group's major raw materials, accounting for about 56.8% of the total raw material costs.

The breakdown of the Group's cost of sales for the six months ended 30 June 2019 as compared with the cost of sales for the six months ended 30 June 2018 is shown below:



January to June 2019



January to June 2018

The Group will continue to implement its established corporate strategies, optimise its product mix and develop new products that address market trends and needs. In addition, the Group will also enhance the level of vertical integration among the various business segments, promote diversified business development and further improve its financial performance.

The Group has continued to strengthen cooperation with Lenzing Fibers, the manufacturer of TENCEL® lyocell fibre and Modal® fibre in order to build a long-standing strategic partnership, using innovative fibre technologies to produce trendy functional yarns to tap the differentiated high-end market. The Group has reinforced its cooperative relationship with Toray International, Inc. of Japan, with the aim of expanding the cooperation from the yarn business to its denim garment business. In addition, in response to market demand, the Group's yarn research and development centre in Xuzhou and the fabric development team of Winnitex Group have been raising product quality and continue to develop products in order to maintain its leading position in the industry, as well as satisfying customers' demand for diversified and high-end products.

The Chinese textile market has been the major market for the Group, accounting for 69.2% of total sales for the six months ended 30 June 2019. The percentage of Group's exports has experienced noticeable growth due to acquisition of textile trading companies in North America in the second half of 2018, as well as incorporation of the original export operation of Winnitex Group to the Group in 2019. The ten largest customers of the Group for the six months ended 30 June 2019 accounted for 15.3% of the total revenue.

PROSPECTS

As at 30 June 2019, the Group had an aggregate of approximately 2.22 million spindles and 1.47 million spindles located inside and outside of China (mainly located in Vietnam), respectively. In addition, approximately 380,000 spindles are under construction, among which, approximately 240,000 spindles are located in China, while the remaining approximately 140,000 spindles are located in Vietnam, Turkey, Mexico, and Nicaragua. As the process and outcome of the trade negotiations between China and the United States would both have an impact on the Chinese textile market, it is expected that the annual sales of yarns for 2019 will remain within the volume of 720,000 tonnes anticipated at the beginning of the year despite the Group's continued expansion of the yarn production capacity during the second half of 2019.

In response to uncertainties brought by the trade friction between China and the United States, the Group will persist in the development of internationalisation and vertical integration. Yarn production facilities to be constructed outside China will directly cater for the overseas market. Fabrics facilities integrated with the production processes of spinning, weaving and dyeing will be completed in Vietnam and Nicaragua. These initiatives will effectively mitigate or avert the impact brought by the trade friction between China and the United States, while vertically integrated production of fabrics, or even including garment production, will uplift the overall profit margin and further stabilise profitability, diminishing the impact from the pricing fluctuation of the raw materials. Furthermore, the Group will increase use of synthetic fibers commensurate with the growing market demand, in which case, use of cotton will decrease thereby reducing the impact brought by the pricing fluctuation of cotton on profitability. In the second half of 2019, the Group will also restructure the knitted fabrics management team to enhance the business efficiency and capacity so as to fully utilise domestic production capacity to boost sales revenue and profit of knitted fabrics in the domestic market, as well as preparing for the expansion of its knitted fabrics operation in Vietnam.

On 12 July 2019, the Group was again named among the "Fortune 500 Chinese Companies 2019," and ranked third by the China Cotton Textile Association among cotton textile enterprises in terms of competitiveness, a strong endorsement of its continuously expanding business and proven business model. The Group will continue to work tirelessly, putting forth its best effort, to bring long term and sustainable returns to Shareholders.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2019, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,966 million (as at 31 December 2018: RMB1,200 million). The decrease in pledged deposits was mainly attributable to the decrease in borrowings for financing the raw materials purchases.

As at 30 June 2019, the Group's inventories increased by RMB488.9 million to RMB5,700.2 million (as at 31 December 2018: RMB5,211.3 million), and trade and bills receivables decreased by RMB149.8 million to RMB1,633.9 million (as at 31 December 2018: RMB1,783.8 million). The inventory turnover days and trade and bills receivables turnover days were 111 days and 30 days for the Review Period respectively, as compared to 101 days and 32 days for the year ended 31 December 2018 respectively. The increase in inventory turnover days was mainly due to an increase in the closing amount of inventories caused by the acquisition of Winnitex Group. The trade and bills receivables turnover days was slightly lower than that of the corresponding period last year. Trade and bills payables increased to RMB4,054.0 million (as at 31 December 2018: RMB3,522.7 million). The increase was mainly due to increase in purchase of raw materials and equipment.

As at 30 June 2019, the Group's borrowings increased by RMB692.4 million to RMB7,820.2 million (as at 31 December 2018: RMB7,127.7 million), which were mainly due to the financing for increased capital expenditures for the new production capacity.

As at 30 June 2019 and 31 December 2018, the Group's key financial ratios were as follows:

	As at 30 June 2019	As at 31 December 2018
Current ratio	**1.33**	1.39
Debt to equity ratio[1]	**1.11**	1.06
Net debt to equity ratio[2]	**0.83**	0.88

1 Based on total borrowings over total equity attributable to shareholders

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

Foreign exchange risk

The Group mainly operates in the PRC and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in Renminbi and US dollar. Foreign exchange risk may arise from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's exposure to foreign exchange risk is mainly attributable to its bank borrowings and raw material procurement denominated in US dollar and Hong Kong dollar. The Group manages its foreign exchange risks by performing regular reviews and closely monitoring its foreign exchange exposures.

To mitigate the depreciation risk of RMB, the Group has purchased a suitable amount of currency option contracts and currency swap contracts so that the currency exposure is hedged against. As at 30 June 2019, as bills payable represent the liabilities due within six months and the amount keep changing over time, the relevant currency exposure was partially hedged by the foreign currency option contracts, while the unhedged exposure amounted to approximately US$37.5 million. As for the currency option contracts entered into for the loans, contracts of approximately US$78 million were hedged at a upper limit exchange rate of US$1 to RMB7.0, while there was no upper limit for the remaining contracts. As for contracts with a upper limit exchange rate, where depreciation of RMB exceeds the maximum level, the Group continues to account for the related foreign exchange risks. The Group will continue to enter into the relevant currency option and swap option contracts so that the currency exposure arising from borrowings denominated in foreign currencies can be minimized.

Capital expenditure

For the six months ended 30 June 2019, the capital expenditure of the Group amounted to approximately RMB1,122 million (for the six months ended 30 June 2018: RMB794 million), which was mainly related to the production capacity of yarns and fabrics under construction in the PRC, Vietnam, Nicaragua and Turkey during the Review Period.

Disclosure pursuant to Rule 13.18 of the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange")

As announced by the Company on 20 April 2016, by an agreement dated 20 April 2016 ("2016 Facility Agreement") entered into by, among others, Texhong Galaxy Technology Limited ("Texhong Galaxy"), a wholly-owned subsidiary of the Company, as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a facility ("2016 Facility") in the aggregate principal amount of up to US$103,000,000 to finance the development of Texhong Galaxy's production plant in Haiha District, Quang Ninh Province, Vietnam. The 2016 Facility shall be fully repaid in April 2023 and is guaranteed by the Company.

The 2016 Facility Agreement contains a requirement that Mr. Hong Tianzhu shall maintain, directly or indirectly, the status of the largest individual shareholder of the Company and maintain the position of chairman of the Group. A breach of such requirement will constitute an event of default under the 2016 Facility Agreement, and as a result, the 2016 Facility is liable to be declared immediately due and payable. The occurrence of such circumstance may trigger the cross default provisions of other banking/credit facilities available to the Group and, as a possible consequence, these other facilities may also be declared to be immediately due and payable.

As at the date of this announcement, the Company is in compliance with the 2016 Facility Agreement.

Pledge of assets

As at 30 June 2019, the Group's machinery and equipment with a net book amount of RMB763.9 million (as at 31 December 2018: RMB834.9 million) and inventories with a total amount of RMB2.74 million (as at 31 December 2018: nil) were pledged to secure for bank borrowings for the purposes of the capital expenditure and working capital respectively. No bills receivable and bank deposits has been pledged as at 30 June 2019 (as at 31 December 2018: RMB97.5 million and RMB68.5 million respectively were pledged).

Human resources

As at 30 June 2019, the Group had a total workforce of 43,018 employees (as at 31 December 2018: 38,076 employees), of whom 21,048 employees were based in the regional headquarters in Shanghai and our manufacturing plants in Mainland China. The remaining 21,970 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Nicaragua, North America, Hong Kong and Macao. The Group will continuously optimize the workforce structure and offer its staff with competitive remuneration schemes. The Group is committed to promote a learning and knowledge sharing culture within the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success depends on the contributions of our skilled and motivated staff in all our functional divisions.

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 attributable to owners of the Company, providing our Shareholders with reasonable returns. The Board has resolved to declare an interim dividend of 18 HK cents per share for the six months ended 30 June 2019 to Shareholders whose names appear on the register of shareholders of the Company in Hong Kong on 25 September 2019.

Closure of register of members

The register of members of the Company will be closed from 23 September 2019 to 25 September 2019, both days inclusive, during which no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 11 October 2019), Shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Hong Kong branch share registrar and transfer office of the Company, Boardroom Share Registrars (HK) Limited at 2103B, 21st Floor, 148 Electric Road, North Point, Hong Kong no later than 4:30 p.m. on 20 September 2019.

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the six months ended 30 June 2019.

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 five executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Listing Rules on the Stock Exchange. During the reporting period, the Company had complied with the Code Provisions.

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 (the "Model Code") set out in Appendix 10 to the Listing Rules. 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, namely, Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The terms of reference 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 condensed consolidated financial statements of the Company for the six months ended 30 June 2019.

REMUNERATION COMMITTEE

The remuneration committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The terms of reference of the remuneration committee comply with the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

NOMINATION COMMITTEE

The nomination committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Hong Tianzhu is the chairman of the nomination committee. The terms of reference of the nomination committee comply with the Code Provisions. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

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

Hong Kong, 23 August 2019

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

Executive directors:	Mr. Hong Tianzhu Mr. Zhu Yongxiang Mr. Tang Daoping Mr. Hui Tsz Wai Mr. Ji Zhongliang
Independent non-executive directors:	Mr. Ting Leung Huel, Stephen Prof. Cheng Longdi Prof. Tao Xiaoming