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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)

RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Revenue increased by 44.4% to RMB2,473 million
- Gross profit margin increased by 7.6 percentage point to 19.2%
- Net profit margin increased by 9.0 percentage point to 12.3%
- Profit attributable to equity holders increased 443.9% to RMB305 million
- Profit attributable to equity holders after excluding other income and other losses increased 446.8% to RMB265 million
- Earnings per share for the half year increased by 446.0% to RMB0.34

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2010	2009
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	2	2,473,443	1,712,654
Cost of sales	3	(1,999,426)	(1,513,190)
Gross profit		474,017	199,464
Selling and distribution costs	3	(66,811)	(54,923)
General and administrative expenses	3	(76,126)	(61,199)
Other income		42,272	7,891
Other losses – net		(2,598)	(338)
Operating profit		370,754	90,895
Finance income	4	5,357	1,242
Finance costs	4	(27,815)	(23,235)
Share of profit/(loss) of an associate		280	(2,374)
Profit before income tax		348,576	66,528
Income tax expense	5	(44,006)	(10,533)
Profit for the period		304,570	55,995
Other comprehensive income		–	–
Total comprehensive income for the period, attributable to equity holders of the Company		304,570	55,995
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)	6	0.344	0.063
Dividends	7	84,938	27,295

The notes on pages 5 to 13 form an integral part of this condensed consolidated interim financial information

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited 30 June 2010 RMB'000	Audited 31 Decemeber 2009 RMB'000
ASSETS			
Non-current assets			
Land use rights		152,819	154,483
Property, plant and equipment		1,521,636	1,435,545
Investment in an associate		35,138	34,858
Deferred income tax assets		5,646	2,601
Total non-current assets		<u>1,715,239</u>	<u>1,627,487</u>
Current assets			
Inventories		984,215	714,655
Trade and bills receivables	8	574,502	435,465
Prepayments, deposits and other receivables		104,626	112,193
Pledged bank deposits		32,606	15,899
Cash and cash equivalents		458,775	392,003
Total current assets		<u>2,154,724</u>	<u>1,670,215</u>
Total assets		<u>3,869,963</u>	<u>3,297,702</u>
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		94,064	94,064
Other reserves		528,777	529,714
Retained earnings		1,110,025	862,887
Total equity		<u>1,732,866</u>	<u>1,486,665</u>

		Unaudited	Audited
		30 June	31 Decemeber
		2010	2009
	<i>Note</i>	RMB'000	RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings		594,903	276,585
Deferred income tax liabilities		29,848	24,137
		<hr/>	<hr/>
Total non-current liabilities		624,751	300,722
		<hr/>	<hr/>
Current liabilities			
Trade and bills payables	9	809,104	510,602
Accruals and other payables		255,797	282,741
Current income tax liabilities		26,192	8,798
Borrowings		420,930	707,869
Derivative financial instruments	10	323	305
		<hr/>	<hr/>
Total current liabilities		1,512,346	1,510,315
		<hr/>	<hr/>
Total liabilities		2,137,097	1,811,037
		<hr/>	<hr/>
Total equity and liabilities		3,869,963	3,297,702
		<hr/>	<hr/>
Net current assets		642,378	159,900
		<hr/>	<hr/>
Total assets less current liabilities		2,357,617	1,787,387
		<hr/>	<hr/>

The notes on pages 5 to 13 form an intergrated part of this condensed consolidated interim financial information

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 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 Cayman Islands. The address of its registered office is 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 condensed interim financial information are presented in Chinese Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 20 August 2010.

This condensed interim financial information has not been audited.

The condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with HKAS 34, ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with HKFRSs.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

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

The following standards, amendments and interpretations to existing standards are effective for the financial year beginning 1 January 2010 but not relevant to the Group:

- HKFRS 3 (revised), ‘Business combinations’, and consequential amendments to HKAS 27, ‘Consolidated and separate financial statements’, HKAS 28, ‘Investments in associates’, and HKAS 31, ‘Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. This is not applicable to the Group as it has not had any business combinations during the year.
- HK(IFRIC)-Int 17, ‘Distributions of non-cash assets to owners’ is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- ‘Additional exemptions for first-time adopters’ (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.
- HKAS 39 (Amendment), ‘Eligible hedged items’ is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.
- HKFRS 2 (Amendment), ‘Group cash-settled share-based payment transaction’ is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 “Non-current assets held for sale and discontinued operations” is effective for annual period on or after 1 July 2009.
- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted by the Group:

- HKFRS 9, ‘Financial instruments’ addresses the classification and measurement of financial assets and is likely to affect the Group’s accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group has not yet decided when to adopt HKFRS 9
- HKAS 24 (Revised) ‘Related party disclosures’ supersedes HKAS 24 ‘Related party disclosures’ issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will apply the revised HKAS 24 from 1 January 2011.
- Under ‘Classification of rights issues’ (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity’s existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted. This is not currently applicable to the Group.
- Amendments to HK(IFRIC) Int-14 ‘Prepayments of a minimum funding requirement’ corrects an unintended consequence of HK(IFRIC) Int-14, ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.
- HK(IFRIC) –Int 19, ‘Extinguishing financial liabilities with equity instruments’ clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity’s shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted. The Group will apply the interpretation from 1 January 2011.
- ‘Limited exemption from comparative HKFRS 7 disclosures for first-time adopters’ (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.
- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

2. REVENUE AND SEGMENTAL INFORMATION

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and garment fabrics. Revenues recognised for the period ended 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 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 geographical 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 six months ended 30 June 2010 is as follows:

	Yarn			Grey fabrics	Garment fabrics	Total RMB'000
	Mainland China RMB'000	Vietnam RMB'000	Other territories RMB'000	Mainland China RMB'000	Mainland China RMB'000	
Total revenue	1,919,350	728,293	802,067	451,420	70,077	3,971,207
Inter-segment revenue	(270,271)	(441,611)	(785,882)	–	–	(1,497,764)
Revenue (from external customers)	1,649,079	286,682	16,185	451,420	70,077	2,473,443
Segment results	201,021	154,366	(4,559)	16,421	7,768	375,017
Unallocated expenses						(4,263)
Operating results						370,754
Finance income						5,357
Finance costs						(27,815)
Share of profit of an associate						280
Income tax expense						(44,006)
Profit for the period						304,570
Depreciation and amortisation	(29,906)	(25,926)	(56)	(10,685)	(1,272)	(67,845)

The segment information for the six months ended 30 June 2009 is as follows:

	Yarn			Grey fabrics	Garment fabrics	Total RMB'000
	Mainland China RMB'000	Vietnam RMB'000	Other territories RMB'000	Mainland China RMB'000	Mainland China RMB'000	
Total revenue	1,276,279	455,560	272,407	336,203	48,269	2,388,718
Inter-segment revenue	(79,819)	(326,085)	(270,160)	–	–	(676,064)
Revenue (from external customers)	<u>1,196,460</u>	<u>129,475</u>	<u>2,247</u>	<u>336,203</u>	<u>48,269</u>	<u>1,712,654</u>
Segment results	59,336	25,150	(2,704)	8,531	3,870	94,183
Unallocated expenses						<u>(3,288)</u>
Operating results						<u>90,895</u>
Finance income						1,242
Finance costs						(23,235)
Share of loss of an associate						(2,374)
Income tax expense						<u>(10,533)</u>
Profit for the period						<u>55,995</u>
Depreciation and amortisation	<u>(26,248)</u>	<u>(18,730)</u>	<u>(123)</u>	<u>(10,616)</u>	<u>(1,447)</u>	<u>(57,164)</u>

The segment assets and liabilities as at 30 June 2010 are as follows:

	Yarn				Grey fabrics	Garment fabrics	Total RMB'000
	Mainland China RMB'000	Vietnam RMB'000	Other territories RMB'000	Sub-total RMB'000	Mainland China RMB'000	Mainland China RMB'000	
Total segment assets	2,016,617	1,096,709	155,255	3,268,581	475,837	97,196	3,841,614
Unallocated assets							<u>28,349</u>
Total assets of the Group							<u>3,869,963</u>
Total segment liabilities				(1,545,437)	(129,870)	(17,734)	(1,693,041)
Unallocated liabilities							<u>(444,056)</u>
Total liabilities of the Group							<u>(2,137,097)</u>
Capital expenditure	<u>148,803</u>	<u>4,834</u>	<u>5</u>	<u>153,642</u>	<u>628</u>	<u>55</u>	<u>154,325</u>

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

	Yarn				Grey fabrics	Garment fabrics	Total RMB'000
	Mainland China	Vietnam	Other territories	Sub-total	Mainland China	Mainland China	
	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							<u>3,297,702</u>
Total segment liabilities				(1,238,149)	(111,267)	(14,940)	(1,364,356)
Unallocated liabilities							<u>(446,681)</u>
Total liabilities of the Group							<u>(1,811,037)</u>
Capital expenditure	<u>67,486</u>	<u>57,141</u>	<u>447</u>	<u>125,074</u>	<u>7,765</u>	<u>1,891</u>	<u>134,730</u>

3. EXPENSES BY NATURE

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Cost of inventories	1,653,244	1,246,857
Employment costs	176,136	151,403
Depreciation and amortisation	67,845	57,164
Transportation	45,129	39,485
Utilities	128,198	102,242
	<u>1,970,552</u>	<u>1,587,141</u>

4. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Finance income		
Exchange gain on financing activities	3,817	326
Interest income on bank deposits	1,540	916
	<u>5,357</u>	<u>1,242</u>
Finance costs		
Interest on borrowings wholly repayable within five years	(27,941)	(24,804)
Less: amount capitalised in property, plant and equipment	126	1,569
	<u>(27,815)</u>	<u>(23,235)</u>
Net finance costs	<u>(22,458)</u>	<u>(21,993)</u>

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Current income tax		
– Mainland China enterprise income tax	41,340	8,385
Deferred income tax	2,666	2,148
	<u>44,006</u>	<u>10,533</u>

(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 period (For the six months ended 30 June 2009: Nil).

(ii) Mainland China enterprise income tax (“EIT”)

Subsidiaries established in Mainland China are subject to EIT at rates ranging from 22% to 25% during the period (2009: 20% 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% (2009: 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’s subsidiaries in Vietnam is exempted from Vietnam income tax during the period (2009: 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 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 Act or the Business Companies Act, 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% (2009: 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 period (2009: Nil).

6. 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 period.

	Six months ended 30 June	
	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	<u>304,570</u>	<u>55,995</u>
Weighted average number of ordinary shares in issue (thousands)	<u>884,681</u>	<u>884,681</u>
Basic earnings per share (RMB per share)	<u>0.344</u>	<u>0.063</u>

(b) Diluted

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

7. DIVIDENDS

A final dividend for the year ended 31 December 2009 amounts to RMB58,369,000 was paid in May 2010 (2009: Nil).

An interim dividend of HKD0.11 per ordinary share (2009: HKD0.035) was declared by the board of directors on 20 August 2010. It will be payable on or about 20 September 2010 to shareholders whose names appear on the register of members of the Company in Hong Kong on 10 September 2010. This interim dividend, amounting to RMB84,938,000 (2009: RMB27,295,000), has not been recognised as a liability in this condensed consolidated balance sheet. It will be recognised in shareholders' equity in the year ending 31 December 2010.

8. TRADE AND BILLS RECEIVABLES

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade receivables	119,635	92,932
Less: provision for impairment	<u>(1,975)</u>	<u>(2,936)</u>
	117,660	89,996
Bills receivables	<u>456,842</u>	<u>345,469</u>
	<u>574,502</u>	<u>435,465</u>

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

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
0 to 30 days	324,068	229,247
31 to 90 days	109,413	119,999
91 to 180 days	140,404	85,516
181 days to 1 year	768	1,027
Over 1 year	1,824	2,612
	<u>576,477</u>	<u>438,401</u>
Less: provision for impairment	(1,975)	(2,936)
Trade and bills receivables – net	<u>574,502</u>	<u>435,465</u>

9. TRADE AND BILLS PAYABLES

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
Trade payables	152,850	243,267
Bills payables	656,254	267,335
	<u>809,104</u>	<u>510,602</u>

As at 30 June 2010, included in the trade payables was an amount due to an associate of RMB2,995,000 (31 December 2009: RMB2,010,000).

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

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
0 to 90 days	592,911	326,513
91 to 180 days	211,573	180,288
181 days to 1 year	3,247	1,324
Over 1 year	1,373	2,477
	<u>809,104</u>	<u>510,602</u>

10. DERIVATIVE FINANCIAL INSTRUMENTS

	As at	
	30 June 2010 RMB'000	31 December 2009 RMB'000
Interest rate swap contract	<u>323</u>	<u>305</u>

Non-hedging derivative is classified as a current asset or a current liability.

The notional principal amount of the outstanding interest rate swap contract at 30 June 2010 was RMB24,447,000 (31 December 2009: RMB30,727,000).

At 30 June 2010, the fixed interest rate was 1.86% (31 December 2009: 1.86%) and the floating rate was with reference to London InterBank Offered Rate ("LIBOR").

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

We are pleased to present to the shareholders with the results of the Group for the six months ended 30 June 2010. During the period under review, the turnover of the Group increased by 44.4% from the corresponding period last year to RMB2,473 million mainly due to the strong demand in the domestic sales market in the PRC. Profit attributable to equity holders increased by 443.9% from the corresponding period last year to RMB305 million, and profit attributable to equity holders after excluding other income and other losses increased by 446.8% to RMB265 million. Earnings per share for the half year increased by 446.0% from RMB0.063 for the corresponding period last year to RMB0.344.

Industry review

Notwithstanding the persistent growth in the domestic market, manufacturers are still cautious in making investment for the expansion of production capacity, which resulted in an insufficient supply in the yarn market since late 2009.

According to the information provided by China National Textile And Apparel Council, the accumulated industrial output value of textile enterprises in China from January to May 2010 was RMB1,686.5 billion in total, representing an increase of 26.55 % over the corresponding period last year. According to the statistics from General Administration of Customs, the accumulated amount of export of textile and garment products from January to June 2010 amounted to US\$88.9 billion, representing an increase of 22% over the corresponding period in 2009. An additional investment of RMB93 billion was made in the textile industry in China from January to June 2010, representing an increase of 22% over the corresponding period last year.

Business Review

For the six months ended 30 June 2010, the turnover of the Group was RMB2,473 million, representing an increase of 44.4% over 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, the turnover of which amounted to RMB1,952 million and accounted for 78.9% of the Group's total turnover. Sales volume of yarns increased by 23.3% from the corresponding period last year to 90,000 tonnes, which was mainly due to the increased proportion of denim yarn in our product portfolio. The Group has continuously focused on the core-spun cotton and denim yarn markets in China and expanded the scale of production while exploring the differentiated and high value-added yarn products market. The turnover of our grey fabrics amounted to RMB451 million and accounted for 18.3% of the Group's total turnover. Sales volume of grey fabrics increased by 11.9% from the corresponding period last year to 47 million meters following the successful restructuring of the grey fabrics business. The operating data of our products is set out below:

	January to June 2010 RMB'000	Gross profit margin	January to June 2009 RMB'000	Gross profit margin	Turnover change between 2010 and 2009	Margin change between 2010 and 2009
Stretch core-spun yarns	1,290,201	22.6%	907,904	13.7%	42.1%	8.9%
Other yarns	661,745	19.4%	420,278	10.6%	57.5%	8.8%
Stretch grey fabrics	348,824	9.3%	223,064	8.6%	56.4%	0.7%
Other grey fabrics	102,596	9.9%	113,139	2.6%	-9.3%	7.3%
Garment fabrics	70,077	15.8%	48,269	17.3%	45.2%	-1.5%
Total	<u>2,473,443</u>	<u>19.2%</u>	<u>1,712,654</u>	<u>11.6%</u>	<u>44.4%</u>	<u>7.6%</u>

The overall gross profit margin of the Group's products increased from 11.6% in the corresponding period last year to 19.2%. It was mainly due to the increased gross profit margin of yarns. The strong demand of yarns in the PRC market resulted in a bigger increase in their selling prices than the increase in the cost of raw materials, which, together with the proper stock up of cotton inventories at the beginning of 2010, drove the gross profit margin of yarns to a high point in recent years.

During the development of differentiated products, we keep on exploring the production of more blended yarns of various fibers and core-spun yarn products besides spandex, and satisfactory results were achieved. We have maintained a close cooperation relationship with Lenzing Fibers (Shanghai) Co., Ltd., and have made a further progress in the application of its cellulose-based Tencel® and Modal® fibers in yarn production as highlighted by the significant increase in its production volume as compared with the corresponding period last year. Our research and development centre in Changzhou has been developing and improving a wide variety of products based on the market demand in order to secure our leading position in the industry and meet the demand of quality customers for different high-end products.

FUTURE OUTLOOK

The first half year of 2010 was a profit-gaining period for the textile industry. While prudent but optimistic for the second half year of 2010, our management believes that the demand of the Group's key products will grow steadily. To capture the market opportunities, Xuzhou Texhong Times Textile Co., Ltd. has commenced the full operation of phase II of the 70,000 spindles in July this year. In addition, the phase III construction of the 190,000-spindle project in Vietnam has already started and is expected to commence production in the first quarter next year. The new project has not only consolidated the Group's leading position in the cotton core-spun yarn market, but also laid a solid foundation for the Group's entry into the denim yarn market in the PRC. In addition to the new capacity construction, the Group also has introduced new equipment to enhance its capability in producing differentiated products, improve the product quality and productivity, and, simultaneously, reduce the pressure from the recruitment.

Looking forward, the management will continue to strive to maintain its competitiveness and leading position by the orderly expansion of production capacity, the optimization of the existing product mix and the development of new products that cater for the market trend and demand while adhering to our operating strategy that focuses on "professionalism, perfectionism and globalization".

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2010, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB491,381,000 (As at 31 December 2009: RMB407,902,000).

The Group's inventories and trade and bills receivables increased by RMB269,560,000 and by RMB139,037,000 to RMB984,215,000 and RMB574,502,000 respectively (As at 31 December 2009: RMB714,655,000 and RMB435,465,000). The inventory turnover days and trade receivable turnover days were 76 days and 37 days respectively, compared to 74 days and 40 days respectively as at 31 December 2009. During the period compared to that of last year, the increase in inventory turnover days as compared with last year were due to the Group's strategic increase of the cotton inventory to minimize the pressure on the cost from the persistent price increase of raw materials. Although the balance of trade and bills receivables increased, the turnover days was actually reduced due to the significant increase of 44.4% in the turnover during the period.

The Group's bank borrowings remained almost unchanged with a slight increase of RMB31,379,000 to RMB1,015,833,000 (As at 31 December 2009: RMB984,454,000).

As announced by the Company on 26 April 2010, by an agreement dated 26 April 2010 (“Facility Agreement”) entered into by, among others, the Company as borrower and a syndicate of banks and financial institutions as lenders, the lenders have agreed to grant a loan facility (“Facility”) of up to the principal amount of US\$43,000,000 for refinancing of the Group’s existing indebtedness. The Facility is for a term of three years and is unsecured. The Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong Tianzhu shall remain the chairman of the Company’s board of directors and the Company’s single largest shareholder. A breach of such requirement will constitute an event of default under the Facility Agreement, and as a result, the Facility is liable to be declared immediately due and repayable. 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 repayable. As at the date of this announcement, the Company is in compliance with the Facility Agreement.

As at 30 June 2010, the Group’s financial ratios were as follows:

	30 June 2010	31 December 2009
Current ratio	1.42	1.11
Debt to equity ratio ¹	0.59	0.66
Net debt to equity ratio ²	0.30	0.39

¹ Based on total borrowings over total equity

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

Foreign exchange risk

The Group mainly operated in mainland China and Vietnam. Most of the Group’s transactions, assets and liabilities are denominated in RMB and USD, among which, most of the sales revenue was denominated in RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities, and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular reviews and monitoring its foreign exchange exposures. The Group did not engage in any foreign exchange hedging activities during the period under review.

Capital expenditure

For the six months ended 30 June 2010, the capital expenditure of the Group amounted to approximately RMB154,325,000 (For the six months ended 30 June 2009: RMB32,714,000). It represents additions to plant and equipment for our production plants in Vietnam and China.

Pledge of assets

As at 30 June 2010, the Group's bank deposits, land use rights and buildings, machinery and equipment with an aggregate net book value of approximately RMB491.4 million were pledged to secure for banking facilities for the purposes of working capital and purchases of fixed assets for the Group (as at 31 December 2009: RMB465.9 million).

Human resources

As at 30 June 2010, the Group had a total workforce of 13,737, representing an increase of 1% compared with that at the end of last year (As at 31 December 2009: 13,596), of whom 10,830 were based in the regional headquarters in Shanghai and our manufacturing plants in mainland China. The remaining 2,907 were located in regions outside mainland China including Vietnam, Hong Kong and Macau. The Group will continuously optimize the workforce structure and offer its staff with competitive remuneration schemes. The Group is committed to nurturing a learning and sharing culture in the organisation. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success 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 dividend payout ratio providing shareholders with an equitable return. The Board has resolved to declare an interim dividend of 11 HK cents per share in respect of the six months ended 30 June 2010 to the shareholders whose names appear on the register of members of the Company in Hong Kong on 10 September 2010.

Closure of register of members

The register of members of the Company will be closed from 7 September 2010 to 10 September 2010, both days inclusive, during which period no transfer of shares can be registered. To qualify for the interim dividend (which will be payable on or about 20 September 2010), shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, 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 6 September 2010.

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

For the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

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

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

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Hong Tianzhu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly every three months to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Hong Tianzhu and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

Model Code for securities transactions by Directors

The Company has adopted a code of conduct regarding the Directors’ securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (“Model Code”). After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors’ securities transactions during the reporting period.

Audit committee

The Company has established an audit committee which comprises three independent non-executive Directors, namely, Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Code Provisions. The audit committee is responsible for reviewing and supervising the Group’s financial reporting process and internal control system and providing advice and recommendations to the Board.

The audit committee has discussed with management and reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2010.

Remuneration committee

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

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

Hong Kong, 20 August 2010

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