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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue increased by 19.5% to RMB16.31 billion.
- Gross profit margin decreased by 4.4 percentage point to 15.0%.
- Net profit margin decreased by 1.6 percentage point to 7.2%.
- Net profit decreased by 2.2% to RMB1,174.7 million.
- Profit attributable to shareholders decreased by 3.0% to RMB1,151.9 million.
- Earnings per share was RMB1.26.

The board (the "Board") of directors (the "Directors") of Texhong Textile Group Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the financial year ended 31 December 2017, together with the comparative figures for 2016.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2017

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Revenue	2	**16,306,375**	13,647,737
Cost of sales	4	**(13,866,416)**	(11,002,594)
Gross profit		**2,439,959**	2,645,143
Selling and distribution costs	4	**(581,717)**	(496,712)
General and administrative expenses	4	**(511,930)**	(546,655)
Other income	3	**169,555**	126,098
Other (losses)/gains — net	3	**(64,690)**	161,673
Operating profit		**1,451,177**	1,889,547
Finance income	5	**9,162**	9,752
Finance costs	5	**(85,697)**	(413,167)
Finance costs — net	5	**(76,535)**	(403,415)
Share of profits less losses of investments accounted for using the equity method		**(12,820)**	10,676
Profit before income tax		**1,361,822**	1,496,808
Income tax expense	6	**(187,097)**	(295,735)
Profit for the year		**1,174,725**	1,201,073
Attributable to:			
Owners of the Company		**1,151,862**	1,187,531
Non-controlling interests		**22,863**	13,542
		1,174,725	1,201,073
Earnings per share for profit attributable to owners of the Company			
— Basic earnings per share	7	**RMB1.26**	RMB1.33
— Diluted earnings per share	7	**RMB1.26**	RMB1.33

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**1,174,725**	1,201,073
Other comprehensive income/(losses)		
Items that will not be reclassified subsequently to profit or loss		
Revaluation of buildings		
— gross	**–**	45,883
— deferred income tax	**–**	(16,354)
Items that may be reclassified subsequently to profit or loss		
Share of other comprehensive income/(losses) of investments accounted for using the equity method		
— share of currency translation reserve	**11,175**	(8,556)
Currency translation differences	**(8,878)**	1,134
Total comprehensive income for the year	**1,177,022**	1,223,180
Attributable to:		
Owners of the Company	**1,154,159**	1,209,471
Non-controlling interests	**22,863**	13,709
	1,177,022	1,223,180

CONSOLIDATED BALANCE SHEET
As at 31 December 2017

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Freehold land and land use rights		**863,083**	695,184
Property, plant and equipment		**6,660,122**	6,231,119
Investments accounted for using the equity method		**182,789**	99,349
Deferred income tax assets		**107,558**	117,004
		7,813,552	7,142,656
Current assets			
Inventories	*9*	**3,764,189**	2,931,297
Trade and bills receivables	*10*	**1,630,144**	1,589,990
Prepayments, deposits and other receivables		**637,229**	1,308,115
Derivative financial instruments	*12*	**134,350**	317,882
Pledged bank deposits		**88,249**	181,201
Cash and cash equivalents		**1,466,718**	1,813,208
		7,720,879	8,141,693
Total assets		**15,534,431**	15,284,349
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		**96,709**	96,709
Share premium		**433,777**	433,777
Other reserves		**616,374**	566,590
Retained earnings		**4,763,267**	4,051,645
		5,910,127	5,148,721
Non-controlling interests		**65,586**	42,723
Total equity		**5,975,713**	5,191,444

		As at 31 December	
		2017	2016
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**2,987,229**	2,559,625
Deferred income tax liabilities		**149,172**	113,377
Finance lease obligations		**1,587**	–
		3,137,988	2,673,002
Current liabilities			
Trade and bills payables	*11*	**2,961,729**	3,044,295
Accruals and other payables		**741,451**	721,658
Current income tax liabilities		**36,562**	72,006
Borrowings		**2,562,369**	3,549,669
Derivative financial instruments	*12*	**112,996**	32,275
Finance lease obligations		**5,623**	–
		6,420,730	7,419,903
Total liabilities		**9,558,718**	10,092,905
Total equity and liabilities		**15,534,431**	15,284,349

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 yarns, 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 annual results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2017 but are extracted from those financial statements.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved and authorised for issue by the Board of Directors of the Company on 9 March 2018.

The principal accounting policies applied in the preparation of the consolidated financial statements have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosures

(a) New amendments of HKFRSs adopted by the Group in 2017

The following amendments to existing standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2017.

Amendments to HKAS 12 'Income Taxes' on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKAS 7 'Statement of Cash Flows' introduced an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKFRS 12 'Disclosure of Interests in Other Entities' is part of the annual improvements to HKFRSs 2014-2016 cycle. The amendments clarify that the disclosure requirements of HKFRS 12 are applicable to interests in entities classified as held for sale except for summarised financial information (para B17 of HKFRS 12). Previously, it was unclear whether all other HKFRS 12 requirements were applicable for those interests.

The adoption of the above new amendments did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2017.

The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities.

(b) ***New standards, amendments and interpretations of HKFRSs issued but are not effective for the financial year beginning on 1 January 2017 and have not been early adopted by the Group***

A number of new standards, amendments and interpretations to existing standards have been issued but are not yet effective for the financial year beginning on 1 January 2017, and have not been early adopted by the Group in preparing the consolidated financial statements. The Group is yet to assess the full impact of these new standards, amendments and interpretations and intents to adopt them no later than their respective effective dates. These new standards, amendments and interpretations are set out below:

(i) HKFRS 9 'Financial Instruments'

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting no significant impact from the adoption of the new standard on 1 January 2018:

The Group does not have:

- Debt instrument or equity instrument that are classified as available-for-sale;
- Debt instrument classified as held-to-maturity and measured at amortised cost;
- Equity investments measured at fair value through profit or loss.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. However, at this stage the Group does not expect to identify any new hedge relationships. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under HKFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for trade debtors and in relation to debt investments held at amortised cost. But according to the preliminary result, the financial impact is expected to be immaterial.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

(ii) HKFRS 15 'Revenue from Contracts with Customers'

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and HKAS 11 which covers construction contracts and related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of apply the new standard on the Group's financial statements and has identified the following area that will be affected:

- rights of return — HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation. Due to the large size and low value of the Group's products, the historical goods return rate is very low.

Based on the preliminary assessment result, the Group does not expect a material impact on the adoption of new HKFRS 15.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(iii) HKFRS 16 'Leases'

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB193 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Also, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

(iv) Amendments to HKFRS 2 regarding classification and measurement of share-based payment transactions, effective for annual periods beginning on or after 1 January 2018.

(v) Amendments to HKFRS 4 'Insurance Contracts', effective for annual periods beginning on or after 1 January 2018.

(vi) Amendments to HKFRS 1 'First Time Adoption of HKFRS', effective for annual periods beginning on or after 1 January 2018.

(vii) Amendments to HKAS 28 'Investments in Associates and Joint Ventures', effective for annual periods beginning on or after 1 January 2018.

(viii) Amendments to HKAS 40 regarding transfers of investment property, effective for annual periods beginning on or after 1 January 2018.

(ix) HK (IFRIC) 22 'Foreign Currency Transactions and Advance Consideration', effective for annual periods beginning on or after 1 January 2018.

(x) HK(IFRIC) 23 'Uncertainty over Income Tax Treatments', effective for annual periods beginning on or after 1 January 2019.

(xi) 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

(i) Revenue

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

(ii) Segment information

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

The Committee of Executive Directors considers the business from both a product and geographical 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, Macao, Cambodia and Nicaragua.

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

The segment information for the year ended 31 December 2017 is as follows:

	Year ended 31 December 2017									
	Yarns			Garment fabrics and Garments				Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Nicaragua	Mainland China	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	11,864,291	7,124,553	12,469,262	480,394	229,471	324,324	93,257	597,652	29,809	33,213,013
Inter-segment revenue	(364,783)	(6,790,829)	(9,722,334)	–	–	–	–	–	(28,692)	(16,906,638)
Revenue (from external customers)	11,499,508	333,724	2,746,928	480,394	229,471	324,324	93,257	597,652	1,117	16,306,375
Segment results	704,008	440,958	236,148	27,932	(36,252)	(8,692)	6,746	697	(14,778)	1,356,767
Unallocated expenses										94,410
Operating profit										1,451,177
Finance income										9,162
Finance costs										(85,697)
Share of profits less losses of investments accounted for using the equity method										(12,820)
Income tax expense										(187,097)
Profit for the year										1,174,725
Depreciation and amortisation	(289,427)	(330,218)	(54)	(26,038)	(12,218)	(5,484)	(587)	(9,161)	(8,772)	(681,959)

The segment information for the year ended 31 December 2016 is as follows:

	Year ended 31 December 2016								
	Yarns			Garment fabrics and Garments			Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Mainland China and Hong Kong	Cambodia	Vietnam	Mainland China	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total revenue	10,702,807	5,754,305	10,903,975	338,403	76,037	–	608,234	–	28,383,761
Inter-segment revenue	(386,761)	(5,564,604)	(8,784,659)	–	–	–	–	–	(14,736,024)
Revenue (from external customers)	10,316,046	189,701	2,119,316	338,403	76,037	–	608,234	–	13,647,737
Segment results	982,782	354,307	549,931	30,979	(7,277)	(9,110)	41,606	(1,584)	1,941,634
Unallocated expenses									(52,087)
Operating profit									1,889,547
Finance income									9,752
Finance costs									(413,167)
Share of profits less losses of investments accounted for using the equity method									10,676
Income tax expense									(295,735)
Profit for the year									1,201,073
Depreciation and amortisation	(234,496)	(297,331)	(102)	(1,166)	(2,288)	(356)	(12,207)	–	(547,946)

The segment assets and liabilities as at 31 December 2017 are as follows:

	As at 31 December 2017										
	Yarns				**Garment fabrics and Garments**				**Grey fabrics**		**Total**
	Mainland China and Hong Kong	**Vietnam**	**Macao**	**Sub-total**	**Mainland China and Hong Kong**	**Cambodia**	**Vietnam**	**Nicaragua**	**Mainland China**	**Vietnam**	
	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	**7,972,965**	**3,910,724**	**495,216**	**12,378,905**	**926,361**	**315,363**	**607,633**	**157,145**	**463,002**	**399,216**	**15,247,625**
Unallocated assets											**286,806**
Total assets of the Group											**15,534,431**
Total segment liabilities				**(5,712,077)**	**(446,224)**	**(59,609)**	**(403,504)**	**(12,922)**	**(69,802)**	**(297,927)**	**(7,002,065)**
Unallocated liabilities											**(2,556,653)**
Total liabilities of the Group											**(9,558,718)**
Capital expenditure	**427,333**	**82,819**	**–**	**510,152**	**7,601**	**27,203**	**55,251**	**–**	**70,281**	**53,841**	**724,329**

The segment assets and liabilities as at 31 December 2016 are as follows:

	As at 31 December 2016									
	Yarns				Garment fabrics and Garments			Grey fabrics		Total
	Mainland China and Hong Kong	Vietnam	Macao	Sub-total	Mainland China and Hong Kong	Cambodia	Vietnam	Mainland China	Vietnam	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment assets	8,845,466	3,992,467	419,211	13,257,144	362,774	52,131	324,417	440,766	358,225	14,795,457
Unallocated assets										488,892
Total assets of the Group										15,284,349
Total segment liabilities				(6,341,931)	(221,857)	(5,602)	(129,352)	(44,328)	(287,525)	(7,030,595)
Unallocated liabilities										(3,062,310)
Total liabilities of the Group										(10,092,905)
Capital expenditure	971,502	147,526	37	1,119,065	140,708	29,297	297,558	5,500	331,678	1,923,806

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

	2017	2016
	RMB'000	*RMB'000*
Other income		
Subsidy income (a)	**169,555**	126,098
Other (losses)/gains — net		
Gains on acquisition of subsidiaries	**173,434**	–
Gains on step-acquisition of an associate and its subsidiaries	**4,027**	–
Gains on acquisition of associates and joint ventures	**–**	20,551
Derivative financial instruments at fair value through profit or loss:		
— Realised profits	**19,725**	43,383
— Unrealised (losses)/profits	**(238,616)**	111,476
Net foreign exchange losses	**(38,497)**	(23,289)
Losses from Notes repurchase	**–**	(291)
Others	**15,237**	9,843
Total other (losses)/gains — net	**(64,690)**	161,673

(a) The subsidy income were mainly related to incentives for development in Xinjiang, Xuzhou, Shandong, Changzhou and Shanghai, Mainland China and comprised of grants provided by municipal governments. The Group has received all the subsidy income and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**11,531,903**	8,777,560
Changes in inventories of finished goods and work in progress	**(341,213)**	(125,721)
Employment benefit expenses	**1,590,509**	1,361,848
Depreciation and amortisation	**681,959**	547,946
Losses on disposal of property, plant and equipment and land use rights	**5,985**	11,691
Office expenses	**82,596**	93,301
Utilities	**905,561**	787,607
Transportation costs	**358,460**	343,957
Auditor's remuneration		
— Annual audit services	**3,900**	4,100
— Audit services for potential bond offerings	**1,350**	–
— Non-audit services	**2,150**	450
Rental expenses for buildings and machinery	**35,119**	42,278
Net accrual/(reversal) of provision for impairment of trade receivables	**1,734**	(2,588)
Net accrual/(reversal) of provision for decline in the value of inventories	**177**	(7,253)
Other expenses	**99,873**	210,785
Total cost of sales, selling and distribution costs and general and administrative expenses	**14,960,063**	12,045,961

5. FINANCE INCOME AND COSTS

	2017	2016
	RMB'000	*RMB'000*
Interest expenses — borrowings	**270,868**	257,709
Interest expenses — finance lease obligations	**–**	8,406
	270,868	266,115
Net exchange (gains)/losses on financing activities	**(185,171)**	165,750
Less: amount capitalised in property, plant and equipment	**–**	(18,698)
Finance costs — net	**85,697**	413,167
Finance income — interest income on bank deposits	**(9,162)**	(9,752)
Net finance costs	**76,535**	403,415

6. INCOME TAX EXPENSE

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

	2017	2016
	RMB'000	*RMB'000*
Current tax on profits for the year	**175,273**	250,531
Adjustment in respect of prior years	**(11,597)**	(1,149)
Deferred income tax	**23,421**	46,353
	187,097	295,735

(a) Hong Kong profits tax

Subsidiaries established in Hong Kong are subject to profits tax at rate of 16.5% (2016:16.5%).

(b) 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% during the year (2016: 25%).

(c) Vietnam income tax

Subsidiaries established in Vietnam are subject to income tax at rate of 20% (2016: 20%).

As approved by the relevant Tax Bureau in Vietnam, the subsidiary acquired in Vietnam in 2017 is entitled to a preferential tax rate of 7.5% during the year and effective till 31 December 2018.

As approved by the relevant Tax Bureau in Vietnam, the subsidiaries established in Vietnam in 2016, 2014, 2013 and 2011 are 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, and are entitled to a preferential income tax rate of 10% for 15 years, commencing from the first year generating income from the operation.

As approved by the relevant Tax Bureau in Vietnam, the subsidiary established in Vietnam in 2006 should separately calculate income tax on its 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% (2016: 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% (2016: 20%).

As approved by the relevant Tax Bureau in Vietnam, the other subsidiary in Vietnam should separately calculate income tax on its supplementary investments. The initial investment of the subsidiary is entitled to a tax rate of 15%. The supplementary investment of the subsidiary is entitled to a tax rate of 20% (2016: 20%).

The applicable tax rates for the subsidiaries in Vietnam range from nil to 20% during the year (2016: nil to 20%).

(d) Other income or profits 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 subsidiary established in Macao is subject to income tax rate of 9% (2016: 9%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the year (2016: nil).

The subsidiary established in Uruguay is subject to income tax rate of 25% (2016: 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 year (2016: nil).

The subsidiary established in Turkey is subject to income tax at the rate of 20% (2016: 20%). No provision for Turkey profits tax has been made as the Group had no assessable profit arising in or derived from Turkey during the year (2016: nil).

The subsidiaries acquired in Cambodia in 2017 and 2015 are subject to income tax at the rate of 20%. No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from these subsidiaries during the year (2016: nil).

The subsidiary acquired in Nicaragua in 2017 is subject to income tax at the rate of 30%. As approved by relevant Tax Bureau in Nicaragua, the subsidiary is entitled to exemption from profits tax during the year and effective till 31 December 2020.

The subsidiary established in Taiwan in 2017 is subject to income tax at the rate of 17%. Taxable income under New Taiwan Dollar 120,000 is exempted from income tax. No provision for Taiwan profits tax has been made as the Group had no assessable profit arising in or derived from Taiwan during the year (2016: nil).

The subsidiaries acquired in Samoa in 2017 are exempted from profits tax during the year.

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 year.

	2017	2016
Profit attributable to owners of the Company (RMB'000)	**1,151,862**	1,187,531
Weighted average number of ordinary shares in issue (thousands)	**915,000**	892,932
Basic earnings per share (RMB per share)	**1.26**	1.33

(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.

	2017	2016
Profit attributable to owners of the Company (RMB'000)	**1,151,862**	1,187,531
Weighted average number of ordinary shares in issue (thousands)	**915,000**	892,932
Adjustments for:		
— Share options (thousands)	**1,317**	555
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**916,317**	893,487
Diluted earnings per share (RMB per share)	**1.26**	1.33

8. DIVIDENDS

The dividend paid in 2017 were RMB396,072,000 (2016: RMB226,390,000), being HKD0.50 per ordinary share (2016: HKD0.30 per ordinary share). A proposed final dividend in respect of the year ended 31 December 2017 of HKD0.21 (2016: HKD0.26) per share, amounting to a total dividend of RMB160,618,000 (2016: RMB210,137,000) is to be presented for approval at the annual general meeting of the Company on 26 April 2018. These financial statements do not reflect this as dividend payable.

	2017	2016
	RMB'000	*RMB'000*
Interim dividend paid of HKD0.24 (2016: HKD0.18) per ordinary share	**185,935**	137,235
Proposed final dividend of HKD0.21 (2016: HKD0.26) per ordinary share	**160,618**	210,137
	346,553	347,372

9 INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**2,600,507**	2,168,041
Work-in-progress	**279,705**	117,580
Finished goods	**883,977**	645,676
	3,764,189	2,931,297

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB11,190,690,000 (2016: RMB8,651,839,000).

In 2017, the Group made an inventory provision of approximately RMB177,000 (2016: reversal of inventory provision of RMB7,253,000). These amounts have been included in 'cost of sales' in the consolidated income statement.

As at 31 December 2017, inventories with a total net book amount of RMB261,236,000 (2016: RMB393,000,000) were pledged as collateral for the Group's bank borrowings.

10. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**551,357**	391,614
Less: provision for impairment	**(7,141)**	(5,407)
	544,216	386,207
Bills receivable	**1,085,928**	1,203,783
	1,630,144	1,589,990

As at 31 December 2017, included in the trade receivables were amounts due from related parties of RMB3,019,000 (2016: RMB56,215,000).

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

As at 31 December 2017, no bills receivable were pledged (2016: bills receivable with a total net book amount of RMB206,797,000 were pledged) as collateral for the Group's bank borrowings.

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:

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**1,171,995**	788,378
31 to 90 days	**364,234**	668,960
91 to 180 days	**84,699**	128,085
181 days to 1 year	**11,200**	2,590
Over 1 year	**5,157**	7,384
	1,637,285	1,595,397
Less: provision for impairment	**(7,141)**	(5,407)
Trade and bills receivables — net	**1,630,144**	1,589,990

11. TRADE AND BILLS PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**507,749**	296,039
Bills payable	**2,453,980**	2,748,256
	2,961,729	3,044,295

As at 31 December 2017, included in trade payables were amounts due to related parties of RMB4,557,000 (2016: RMB4,341,000).

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

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**1,900,496**	1,848,405
91 to 180 days	**1,021,831**	1,181,040
181 days to 1 year	**31,981**	9,347
Over 1 year	**7,421**	5,503
	2,961,729	3,044,295

12. DERIVATIVE FINANCIAL INSTRUMENTS

	2017	2016
	RMB'000	*RMB'000*
Assets:		
Forward foreign exchange contracts *(Note (a))*	**117,580**	317,882
Cross currency swap contracts *(Note (b))*	**324**	–
Cotton future contracts *(Note (c))*	**16,446**	–
	134,350	317,882
Liabilities:		
Forward foreign exchange contracts *(Note (a))*	**50,282**	24,260
Cross currency swap contracts *(Note (b))*	**62,714**	7,975
Interest rate swap contract *(Note (d))*	**–**	40
	112,996	32,275

Non-hedging derivatives are classified as current assets or liabilities.

Notes:

(a) The forward foreign exchange contracts as at 31 December 2017 comprised thirty-one contracts with notional principal amounts totalling RMB3,861,712,000 (2016: twenty contracts with notional principal amounts totalling RMB5,555,718,000).

(b) The cross currency swap contracts as at 31 December 2017 comprised thirteen contracts with notional principal amounts totalling RMB1,630,025,000 (2016: three contracts with notional principal amounts totalling RMB626,150,000).

(c) The cotton future contracts as at 31 December 2017 comprised four contracts with notional principal amount totalling USD7,103,000 (2016: nil).

(d) The interest rate swap contract as at 31 December 2016 comprised one contract with notional principal amount of RMB173,425,000 and it has been due in 2017.

CHAIRMAN'S STATEMENT

Results

In 2017, the textile industry in China experienced fierce competition with customers having keen demand for diverse and differentiated products. Besides, the Chinese government stepped up enforcement of environmental protection laws, which posed tremendous pressure on dyeing and printing corporations in the industry. Some of them had to suspend operation to rectify non-compliance with the environmental protection law and some even had to shut down, and as a result, orders fluctuated for a period of time. This difficult operating environment, while testing for small and medium enterprises under the unfavourable condition, actually worked in favour of large enterprises.

To satisfy customers' strong demand for the differentiated products of the Group, we continued to expand our yarn production capacity and added 140,000 spindles in the second half of 2017 by acquiring second-hand equipment at low cost and leasing. The Group's yarn sales volume hit record high for the 11th consecutive year at approximately 650,000 tonnes, over 8.0% more than that of last year, and income from yarn sales climbed to more than RMB14 billion. Being affected by the market sentiment, the selling prices of some yarns decreased in the first half of the year. Although the selling prices of yarns rebounded in the second half of the year and the gross profit margin of yarns returned slowly on the uptrend, the gross profit margin was relatively high in the previous year, it dropped from 20.1% to 16.3% this year. For the year ended 31 December 2017, the Group's profit attributable to shareholders amounted to RMB1.15 billion and basic earnings per share was RMB1.26, decreased by 3.0% and 5.3% respectively, when compared with last year.

To better facilitate development of our jeanswear business, we acquired two jeanswear factories in March 2017, one in Vietnam and the other in Cambodia, from the Taiwanese company Nien Hsing Textile and adjusted the Group's jeanswear teams and production lines in Shandong and Cambodia. We produced and sold over 13 million pairs of jeans during the year, serving mainly customers in the US, Japan and Europe. Although the business recorded some losses during the year, at our hard work in the past few months, we have secured orders from a reputable Japanese customer and regained the recognition of the existing customers of the business acquired. By continuously improving the quality of orders, enhancing production equipment and efficiency, we believed our jeanswear business will turn around in 2018.

Outlook

The Group celebrated its 20th anniversary in 2017. In the past two decades, using our own capital and various loan facilities, we had built a foundation of three million spindles with turnover exceeding RMB16 billion and generating free cash flow over RMB1 billion a year. As such we have sufficient resources to support the continuous expansion of our long-standing yarn business and also the development of our new jeanswear business, which will become another growth engine of the Group in the medium to long term.

We have created a premium production and operating environment on our industry chain platform in the industrial park in Northern Vietnam for our existing denim yarn customers to develop and produce fabrics. As such, we will be able to spare ourselves from the risk of investing in such business and vast capital expenditure required, while developing in complement and achieving a win-win situation together with our customers. We can also quickly accomplish high-quality industry chain integration in Vietnam, which will allow us to carry out production, operation and management of the entire industry chain in a single industrial park. We will be able to achieve prompt delivery, perfect for satisfying the requirement of the brands nowadays to reduce inventory risk and place additional orders during the same season based on the then consumer demands.

We believe large and advanced enterprises in different sectors shall emerge at the drive of management and technological reforms in the manufacturing industry in China in the Smart Age. The strong will become stronger. Large enterprises will be leaving their medium to small peers farther and farther behind on the aspects of differentiation, specialization, economy of scale, globalization and rationalization. The Group, being one of the leading players in the industry, needs its staff, old and new, to embrace change and integration as well as growing together to help the Group achieve synergies in the application of resources and capabilities, maintain and keep enhancing its competitive advantages, and work hard on product innovation and leadership, as well as improving efficiency. The Group began to invest and set up plants in Vietnam a decade ago, a move that has enabled us to maintain industry leadership now. Currently, we ride on our advantages in Vietnam to develop our business. We expect to diligently implement and take to fruition our industry chain integration concept which will let the Group thrive in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group is pleased to present to the shareholders the annual results of the Group for the year ended 31 December 2017. During the year, the Group's revenue grew by 19.5% to RMB16.31 billion when compared with last year. Profit attributable to shareholders decreased by 3.0% to RMB1,152 million against last year. Basic earnings per share decreased from RMB1.33 to RMB1.26. The year-on-year decrease in the profit attributable to shareholders was mainly due to the disproportionally high gross profit margin of yarns resulting from increased cotton prices last year while the selling prices of certain types of yarns were temporarily under pressure this year, which undermined the profitability of the related business during the year.

Industry Review

Textile enterprises, especially those in dyeing and printing business, have been the hardest hit by efforts of the Chinese government to crack down on industries causing pollution. Against this backdrop, compliant enterprises stand out and have advantages in capturing market share despite the testing industry environment, and as a result "the strong gets stronger".

According to statistics from the National Bureau of Statistics of the PRC, in 2017, the aggregate sales achieved by enterprises armed with sizeable capacity in the textile industry amounted to RMB3,864.0 billion, representing a 4.0% growth year-on-year. Total profit was RMB197.65 billion, up by 3.9% year-on-year. The sales of garment and apparel enterprises with sizeable capacity in the textile industry amounted to RMB2,217.24 billion, representing a year-on-year increase of 1.0%, and net profit was RMB126.37 billion, up by 2.9% year-on-year. For the production volume in 2017, yarn was 40.50 million tonnes, representing a 5.6% growth year-on-year, while fabric was 69.56 billion metres, representing a year-on-year growth of 1.2%. The production volume of synthetic fibre was 49.196 million tonnes, representing a 5.0% growth year-on-year. In 2017, the PRC exported textiles and garments of total worth US$109.77 billion, representing a year-on-year increase of 4.5%. Of that total, textiles exports accounted for US$157.18 billion, representing a year-on-year decrease of 0.4%.

According to statistics from the Customs of Vietnam, the sales volume of yarn and staple of the country grew by 15.6% to 1.349 million tonnes in 2017, while sales increased by 22.7%, when compared with 2016, to US$3.593 billion. Value of garments exports grew by 9.2% to US$26.038 billion.

Business Review

For the year ended 31 December 2017, revenue of the Group reached record high at RMB16.31 billion, representing an increase of 19.5% when compared with last year, mainly attributable to the increase in revenue from sales of yarns and the newly acquired jeanswear business.

The Group derives revenue from sales of yarns, grey fabrics, garment fabrics as well as jeanswear. During the year, yarn continued to be its major product, generating revenue of RMB14.6 billion, an increase of 15.5% comparing with the previous year, accounting for 89.4% of its total revenue for the year. The increase was mainly driven by sales volume growth. With production capacity expanded, the Group's yarn sales volume for the year ended 31 December 2017 increased to another historical high at about 650,000 tonnes, a 8.0% climb against last year. Revenue from jeanswear was RMB634 million, around 3.9% of the Group's total revenue for the year.

The overall gross profit margin of the Group decreased from 19.4% for the year ended 31 December 2016 to 15.0% for the year ended 31 December 2017. The decrease was mainly attributable to the increase in cotton price pushing the gross profit margin of yarn to a higher than normal level last year, while in contrast the prices of certain yarns were under pressure from the market especially in the first half of 2017. Moreover, the newly added downstream business was still in early development stage with a much lower gross profit margin than the yarn business. All the above mentioned factors together caused a decrease of 4.4 percentage points in the overall gross profit margin.

For the year ended 31 December 2017, the Group recorded profit attributable to shareholders of RMB1,152 million, with basic earnings per share of RMB1.26 representing a decrease of 3.0% and 5.3% respectively when compared with last year. The decrease in profit attributable to shareholders was mainly attributable to the temporary decrease in profit from yarn business. Nevertheless, as a one-off profit was recorded from the acquisition of jeanswear business during the year, the decrease in net profit was smaller than that in gross profit.

The Group will continue to implement its established corporate strategies, optimize its product mix and develop new products to meet market trends and needs. It will fully exploit the advantage of its global production presence to further improve its financial performance.

The Group will continue to strengthen the collaboration with the world leading fibre developers to produce trendy yet functional yarns to cater for the development in the differentiated high-end market. The Group also continued to reinforce its cooperative relationship with Toray of Japan, extending the cooperation from yarn business to jeanswear business. In response to market demand, the Group's research and development centre has kept pushing for improvement of product quality and development of new products so as to help the Group maintain the leadership position in the industry and capture highest quality customers in the different high-end product arenas.

Prospect

The PRC has orderly sold the national cotton reserve in the past two consecutive years, the cotton reserve is now at a more reasonable level compared with a few years ago. Assuming the PRC will continue the policy of selling the cotton reserve, we expect domestic and foreign cotton prices to remain relatively stable in 2018.

As at the end of 2017, the Group had major production facilities comprising about 3.03 million spindles and 1,283 looms. Of all the spindles, approximately 1.78 million were in the PRC and approximately 1.25 million were in Vietnam. In light of the strong demand for differentiated yarn products, the Group intends to gradually commence expansion plans in Northern Vietnam, Xuzhou and Shandong, the PRC in 2018. The additional production capacity will be exploited with new and second-hand equipment. Approximately 220,000 and 380,000 spindles will be added in Vietnam and the PRC respectively. The Group is also actively seeking for opportunities to acquire yarn factories in the PRC to meet market demand for differentiated products. Furthermore, relevant effort will be made to expand downstream business and upgrade existing equipment. The expansion plan is estimated to cost approximately RMB2 billion in 2018 and 2019 and will be completed in stages. The sales targets for 2018 are 720,000 tonnes of yarns, 80 million metres of grey fabrics, 40 million metres and 18,000 tonnes of garment fabrics and 18 million pairs of jeans.

After the adjustment and consolidation made in 2017, the Group's jeanswear business will develop more efficiently and has been gradually gaining the trust of new customers and existing customers of the acquired business, giving the Group a big boost in enhancement of order quality, balancing production between peak and low season and improving production efficiency. The Group looks forward to its jeanswear business turning around to profit in 2018. At the same time, implementation of the strategy for the establishment of the industry chain platform in Vietnam will continue in order to attract more existing denim fabric manufacturers and industry peers to set up factories in the industrial park in Vietnam. By capitalizing on the advantage of our existing denim yarn raw material resources in Vietnam and the production capabilities of our existing denim yarn customers, the Group targets to produce jeanswear of international quality and wins the recognition of famous brands with prompt response and fast product delivery, thereby lay a solid foundation for its rapid expansion in the future.

On the yarn business front, it is now in an apparently better position than 2017, but whether its profit margin will return to a higher level remains to be seen, subject to the inflow of orders in the next few months in the advent of the peak season.

In July 2017, the Group was again named by Fortune magazine as one of the "Fortune 500 Chinese Companies 2017", a strong testament to the continuous expansion of the Group and the wide recognition its business model enjoys. The Group will continue to work tirelessly, putting in its best effort, to bring long term and sustainable returns to shareholders.

FINANCIAL REVIEW

Sales

The Group's sales mainly comprises the sales of yarns, grey fabrics and garment fabrics, as well as jeanswear. With the commencement of operation of our new production facilities, and the commitment of staff members, the sales of yarn increased by about 15.5% in 2017 as compared to that of 2016. Sales analyses of the Group by products are shown below.

	2017 *RMB'000*	2016 *RMB'000*	Sales change between 2017 and 2016
Stretchable core-spun yarns			
— Cotton	**3,884,130**	3,821,813	1.6%
— Denim	**2,617,195**	2,135,524	22.6%
— Synthetic fiber	**1,457,380**	992,237	46.9%
Other yarns			
— Cotton	**3,098,705**	2,340,275	32.4%
— Denim	**2,015,865**	1,966,129	2.5%
— Synthetic fiber	**1,506,885**	1,369,085	10.1%
Grey fabrics			
— Stretchable grey fabrics	**467,367**	528,279	–11.5%
— Other grey fabrics	**131,402**	79,955	64.3%
Garment fabrics	**493,554**	285,834	72.7%
Jeans	**633,892**	128,606	392.9%
Total	**16,306,375**	13,647,737	19.5%

	Sales volume		Selling price		Gross profit margin	
	2017	2016	**2017**	2016	**2017**	2016
Stretchable core-spun yarns (Ton/RMB per ton)						
— Cotton	**170,419**	173,732	**22,792**	21,998	**15.4%**	21.0%
— Denim	**110,799**	90,375	**23,621**	23,630	**19.0%**	24.3%
— Synthetic fiber	**56,576**	41,712	**25,760**	23,788	**18.3%**	22.3%
Other yarns (Ton/RMB per ton)						
— Cotton	**139,349**	119,986	**22,237**	19,505	**15.1%**	17.4%
— Denim	**103,087**	109,472	**19,555**	17,960	**16.2%**	18.9%
— Synthetic fiber	**67,236**	64,113	**22,412**	21,354	**14.3%**	15.4%
Grey fabrics (Million meters/ RMB per meter)						
— Stretchable grey fabrics	**48.1**	53.3	**9.7**	9.9	**5.1%**	11.9%
— Other grey fabrics	**17.8**	11.4	**7.4**	7.0	**–5.3%**	8.6%
Garment fabrics (Million meters/ RMB per meter)	**29.3**	24.3	**16.8**	11.8	**7.5%**	15.0%
Jeans (Million pairs/RMB per pair)	**13.1**	3.4	**48.4**	37.8	**2.3%**	–0.1%

The Chinese textile market is the Group's major market, accounting for 80.1% of our total sales of 2017. The ten largest customers of the Group for 2017 are as follows:

Shaoguan Shunchang Weaving Factory Co., Ltd.
Ningbo Daqian Textile Co., Ltd.
Guangdong Qianjin Jeans Co., Ltd.
Toray International, Inc.
Zhejiang Limayunshan Textile Co., Ltd.
American Eagle Outfitters, Inc.
XinChangJing Textiles Co., Ltd.
YiXing Magnolia Garment Co., Ltd.
Haining Denim Weaving Co., Ltd.
Baijia Dyeing Factory Ltd.

The Group has more than 3,000 customers. As the Group produces differentiated products, the Group does not rely on orders from a particular customer. The ten largest customers only accounted for 16.7% of the total sales of 2017 and each one of them has a more than 5 years' business relationship with the Group.

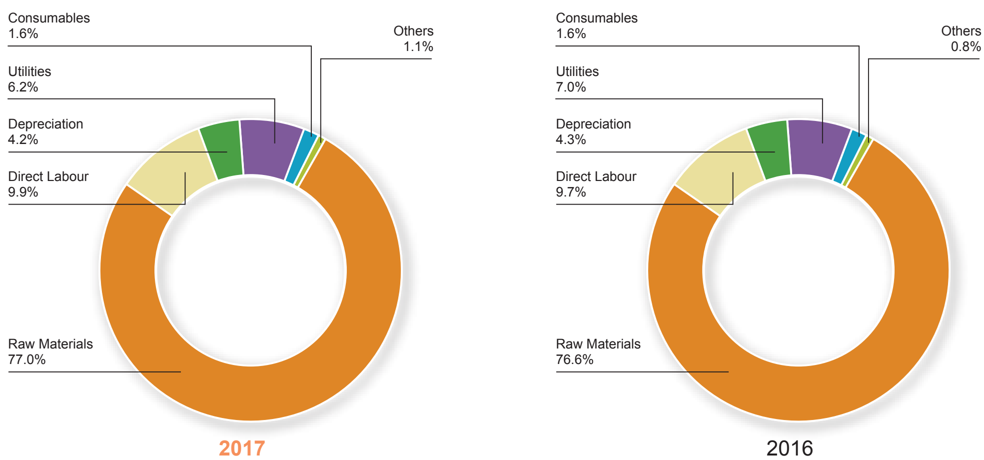
Gross profit and gross profit margin

Gross profit of the Group decreased from RMB2.65 billion to RMB2.44 billion, representing a decrease of 7.8% as compared to that of 2016. The overall gross profit margin also decreased by 4.4 percentage point to 15.0% as compared to that of 2016. The decrease in gross profit margin was mainly due to increase in cotton prices that resulted in a gross profit margin higher than normal level for yarns last year. In contrast, certain relatively simple types of yarns faced price pressure in the first half of this year. Moreover, the downstream business was still in the initial stage with a lower gross profit margin than the yarn business, leading to a more substantial decrease in gross profit margin.

Cost structure

Cost of sales increased by 26.0% to RMB13.9 billion when compared to that of 2016. Raw material cost accounted for about 77.0% of the total cost of sales of 2017. Cotton is our major raw material.

The breakdown of our cost of sales is shown below:



Selling and distribution costs

For the year ended 31 December 2017, the Group's selling and distribution costs amounted to RMB581.7 million, representing an increase of 17.1% when compared to that of 2016. The increase was attributable to the increase in transportation costs and salaries of sales personnel due to increase in sales volume.

General and administrative expenses

For the year ended 31 December 2017, the Group's general and administrative expenses decreased by 6.4% to RMB511.9 million when compared to that of 2016, which represented 3.1% of the Group's sales. The decrease was mainly due to the decrease in costs for arrangement and repayment of debts.

Cash flows

	2017	2016
	RMB'000	*RMB'000*
Net cash generated from operating activities	**2,192,611**	606,575
Net cash used in investing activities	**(1,337,721)**	(2,045,779)
Net cash (used in)/generated from financing activities	**(1,201,380)**	1,312,390
Cash and cash equivalents at end of the year	**1,466,718**	1,813,208

For the year ended 31 December 2017, net cash generated from operating activities amounted to RMB2,192.6 million, which represents an significant increase comparing with 2016 mainly because of the significant increase in cash outflow of raw material purchase and the prepayment of cotton purchase required by the domestic cotton suppliers last year, while such situation has improved this year. Net cash used in investing activities amounted to RMB1,337.7 million, which was mainly used for the payment of capital expenditures for capacity expansion, acquisitions of subsidiaries and investments in associates. During the year under review, net cash used in financing activities amounted to RMB1,201.4 million, which was mainly used in repayment of bank loans and dividends.

Liquidity and financial resources

As at 31 December 2017, the Group's bank and cash balances (including pledged bank deposits) amounted to RMB1,555.0 million (as at 31 December 2016: RMB1,994.4 million). The Group's inventories increased by RMB832.9 million to RMB3,764.2 million and our trade and bills receivables increased by RMB40.20 million to RMB1,630.1 million (as at 31 December 2016: RMB2,931.3 million and RMB1,590.0 million respectively). The inventory turnover days and trade and bills receivables turnover days were 87 days and 36 days respectively, compared to 79 days and 35 days in 2016. Increase in inventory turnover days was mainly attributable to the increase in average inventory for the year due to the inventories from the acquisition of subsidiaries in the first half and by the end of 2017.

Trade and bills payables decreased by RMB82.60 million to RMB2,961.7 million as at 31 December 2017 (as at 31 December 2016: RMB3,044.3 million), the payable turnover days was 78 days, compared to 87 days in 2016. Decrease in the payable turnover days was mainly due to the decrease in cotton purchases as compared to last year.

The total bank borrowings of the Group reduced by RMB559.7 million to RMB5,549.6 million as at 31 December 2017. Current bank borrowings decreased by RMB987.3 million to RMB2,562.4 million while non-current bank borrowings increased by RMB427.6 million to RMB2,987.2 million. The increase in the proportion of non-current bank borrowings enhanced the stability of the financial structure. Despite its higher interest rate than current borrowings, the Group will continue to maintain a considerable proportion of long-term borrowings.

As at 31 December 2017 and 2016, the Group's financial ratios were as follows:

	2017	2016
Current ratio	**1.20**	1.10
Debt to equity ratio[1]	**0.94**	1.19
Net debt to equity ratio[2]	**0.68**	0.80

1 Based on total borrowings over equity attributable to shareholders

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

Borrowings

As at 31 December 2017, the Group's total bank borrowings amounted to RMB5,549.6 million, among which RMB2,298.1 million (41.4%) was denominated in Renminbi, RMB1,010.3 million (18.2%) was denominated in United States dollars ("US$" or "USD") and RMB2,241.2 million (40.4%) was denominated in Hong Kong dollars ("HK$" or "HKD"). These bank borrowings borne interest at rates ranging from 1.2% to 6.5% per annum (2016: 3.3% to 6.5%).

As at 31 December 2017, the Group has outstanding current bank borrowings of RMB2,562.4 million (2016: RMB3,549.7 million). Decrease in current bank borrowings was mainly due to more working capital borrowings in relation to the prepayment of cotton purchase and inventories last year, while such borrowings decreased this year.

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

As at 31 December 2017, bank borrowings of RMB464.7 million (2016: RMB658.2 million) were secured by the pledge of the Group's land use rights with a net book amount of RMB26.70 million (2016: RMB26.0 million); the pledge of the Group's property, plant and equipment with a net book amount of approximately RMB180.9 million (2016: RMB116.5 million) and inventories with a net book amount of RMB261.2 million (2016: RMB393.0 million). No bank acceptance was secured as at 31 December 2017 (2016: RMB206.8 million).

Foreign exchange risk

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

To mitigate the risk of depreciation of Renminbi, the Group has taken steps to reduce its US dollar indebtedness exposure by cutting down its US dollar-denominated borrowings and purchasing a suitable amount of currency option contracts. The protection offered by some of the currency option contracts entered is only to the extent of USD1 to RMB7.6. In the event that Renminbi depreciates beyond that level, the Group will be required to bear the relevant foreign exchange risk. In addition, other than bills payable in US$, the Group had exposure in Hong Kong dollar indebtedness of about HK$673 million without protection of option contracts as at 31 December 2017.

Capital expenditure

For the year ended 31 December 2017, the capital expenditure of the Group amounted to RMB724 million (2016: RMB1,924 million). It was mainly comprised of the investments in fixed assets in Vietnam and Mainland China.

Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities.

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 12 April 2013, the Company and certain of its subsidiaries entered into a purchase agreement with Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Standard Chartered Bank in connection with the issue of US$200 million 6.500% senior notes (the "2013 Notes") due 2019. The indenture (the "Indentures") governing the 2013 Notes provides that upon the occurrence of a change of control triggering event, the Company will make an offer to purchase all outstanding 2013 Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to (but not including) the offer to purchase payment date.

A change of control under the Indentures includes, among others, any transaction that results in either (i) the Permitted Holders (as defined below), which include Mr. Hong Tianzhu ("Mr. Hong"), the controlling shareholder of the Company and companies controlled by him, being the beneficial owners (as such term is used in the Indentures) of less than 50.1% of the total voting power of the voting stock of the Company; or (ii) any person or group (as such terms are used in the Indentures) is or becomes the beneficial owner, directly or indirectly, of total voting power of the voting stock of the Company greater than such total voting power held beneficially by the Permitted Holders. "Permitted Holders" means any or all of (1) Messrs. Hong Tianzhu and Zhu Yongxiang; (2) any affiliate of the persons specified in paragraph (1); and (3) any person both the capital stock and the voting stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by persons specified in paragraphs (1) and (2) above.

The 2013 Notes were fully redeemed before maturity on 18 January 2017.

As announced by the Company on 18 May 2015, by an agreement dated 18 May 2015 ("2015 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 term loan facility ("2015 Facility") of up to the aggregate principal amount of US$110 million for any refinancing, repayment, redemption, purchase or repurchase of the 2011 Notes due in January 2016 issued by the Company, in whole or part, at or before their maturity. The 2015 Facility shall be fully repaid in May 2018 and is guaranteed by certain subsidiaries of the Company. The amount of the 2015 Facility represents approximately 27% of the total amount of banking/credit facilities (including the 2015 Facility) presently available to the Group. The 2015 Facility Agreement contains the usual cross default provisions and a further requirement that Mr. Hong shall be and continue to be the chairman of the Company, directly or indirectly beneficially own not less than 25% of the total voting shares issued by the Company, and be and remain the single largest holder of the voting shares issued by the Company. A breach of such requirement will constitute an event of default under the 2015 Facility Agreement, and as a result, the 2015 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 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 2015 Facility Agreement and the 2016 Facility Agreement.

Human resources

As at 31 December 2017, the Group had a total workforce of 38,024 employees (as at 31 December 2016: 27,279), of whom 16,984 employees were located in the sales headquarters and our manufacturing plants in Mainland China. The remaining 21,040 employees were stationed in regions outside Mainland China including Vietnam, Cambodia, Nicaragua, Taiwan, Hong Kong and Macao. New employees were recruited to cater for the Group's business expansion during the year. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to creating a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contribution of all skilled and motivated employees.

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 shareholders with an equitable return. The Board has resolved to distribute a final dividend of 21 HK cents per share in respect of the year ended 31 December 2017 to shareholders whose names appear on the register of member on 20 April 2018 and will be payable on or about 18 May 2018, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company on 26 April 2018. An interim dividend of 24 HK cents per share was paid by the Company on 18 September 2017.

Closure of register of members

The register of members of the Company will be closed from 21 April 2018 to 26 April 2018, both days inclusive, during which no transfer of shares can be registered. To qualify for the attendance at the forthcoming annual general meeting, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar (the "Share Registrar"), Boardroom Share Registrars (HK) Limited, at 2103B, 21/F, 148 Electric Road, North Point, Hong Kong, no later than 4:30 p.m. on 20 April 2018.

Conditional on the passing of the resolution approving the declaration of the final dividend by the shareholders in the forthcoming annual general meeting of the Company, the register of members of the Company will also be closed from 4 May 2018 to 8 May 2018, both days inclusive, during which no transfer of shares can be registered. To qualify for the final dividend to be approved at the annual general meeting of the Company, shareholders must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Share Registrar at the above address no later than 4:30 p.m. on 3 May 2018.

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

Save as disclosed below, there was no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the year ended 31 December 2017.

During the year ended 31 December 2017, the 2013 Notes listed on the Stock Exchange were fully redeemed before maturity on 18 January 2017.

Corporate governance

The Company was committed to maintaining high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner. The Board comprises 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. 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 set out in Appendix 10 to the Listing Rules (the "Model Code"). After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standards set out in the Model Code and the Company's code of conduct regarding the Directors' securities transactions during the reporting period.

Audit committee

The Company has established an audit committee (the "Audit Committee") pursuant to a resolution of the Directors passed on 21 November 2004. The Audit Committee comprises three independent non-executive Directors, including 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 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 met on a semi-annual basis and the review covers the findings of internal auditors, internal control, risk management and financial reporting matters.

The Audit Committee has discussed with the management and reviewed the annual results for the year ended 31 December 2017.

Nomination committee

The Company has established a nomination committee (the "Nomination Committee") pursuant to a resolution of the Directors passed on 19 March 2012. The Nomination Committee comprises an executive Director and the chairman of the Company, Mr. Hong Tianzhu and three independent non-executive Directors, namely Professor Tao Xiaoming, Professor Cheng Longdi and Mr. Ting Leung Huel, Stephen. The chairman of the Nomination Committee is Mr. Hong Tianzhu. The Nomination Committee has adopted terms of reference which are in line with the Code Provisions. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

Remuneration committee

The Company has established a remuneration committee (the "Remuneration Committee") pursuant to a resolution of the Directors passed on 21 November 2004. The Remuneration Committee comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Professor Tao Xiaoming and Professor Cheng Longdi and an executive Director and the chairman of the Company, 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.

Publications of results announcement

This results announcement is published on the websites of the Company (www.texhong.com) and the Stock Exchange (www.hkexnews.hk). An annual report for the year ended 31 December 2017 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange in due course.

Acknowledgement

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

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

Hong Kong
9 March 2018

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. Tao Xiaoming Prof. Cheng Longdi