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TEXHONG INTERNATIONAL GROUP LIMITED

天虹國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2678)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue decreased by 4.5% to RMB22.7 billion
- Gross profit margin decreased by 5.2 percentage points to 6.4%
- Net loss was RMB299.4 million
- Loss attributable to shareholders was RMB375.7 million
- Basic loss per share was RMB0.41

The board (the “Board”) of directors (the “Directors”) of Texhong International Group Limited (the “Company”) present the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the financial year ended 31 December 2023, together with the comparative figures for 2022.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

		Year ended 31 December	
		2023	2022
	Note	RMB'000	RMB'000
Revenue	2	22,725,317	23,805,354
Cost of sales	4	<u>(21,262,702)</u>	<u>(21,049,732)</u>
Gross profit		1,462,615	2,755,622
Selling and distribution costs	4	(730,358)	(886,380)
General and administrative expenses	4	(1,178,578)	(1,316,058)
Net accrual of impairment losses on financial assets		(68,218)	(39,615)
Other income	3	114,493	123,052
Other gains/(losses) — net	3	<u>789,864</u>	<u>(34,760)</u>
Operating profit		<u>389,818</u>	<u>601,861</u>
Finance income	5	98,358	37,743
Finance costs	5	<u>(615,950)</u>	<u>(504,604)</u>
Finance costs — net		<u>(517,592)</u>	<u>(466,861)</u>
Share of (losses)/profits of investments accounted for using the equity method		<u>(2,414)</u>	<u>36,159</u>
(Loss)/profit before income tax		(130,188)	171,159
Income tax (expense)/credit	6	<u>(169,194)</u>	<u>30,027</u>
(Loss)/profit for the year		<u>(299,382)</u>	<u>201,186</u>
Attributable to:			
Owners of the Company		<u>(375,700)</u>	156,808
Non-controlling interests		<u>76,318</u>	<u>44,378</u>
		<u>(299,382)</u>	<u>201,186</u>
(Losses)/earnings per share for (loss)/profit attributable to owners of the Company			
— Basic (losses)/earnings per share	7	<u>RMB(0.41)</u>	<u>RMB0.17</u>
— Diluted (losses)/earnings per share	7	<u>RMB(0.41)</u>	<u>RMB0.17</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Loss)/profit for the year	<u>(299,382)</u>	201,186
Other comprehensive income		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Revaluation of buildings		
— Gross	—	8,198
— Deferred income tax	—	23,662
<i>Item that may be reclassified subsequently to profit or loss</i>		
Currency translation differences	<u>27,119</u>	<u>52,626</u>
Total comprehensive (loss)/income for the year	<u><u>(272,263)</u></u>	<u><u>285,672</u></u>
Attributable to:		
Owners of the Company	<u>(352,544)</u>	229,789
Non-controlling interests	<u>80,281</u>	<u>55,883</u>
	<u><u>(272,263)</u></u>	<u><u>285,672</u></u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
ASSETS			
Non-current assets			
Freehold land		109,393	188,492
Property, plant and equipment		8,493,748	9,606,778
Investment properties		382,700	268,891
Right-of-use assets		1,264,074	1,581,210
Intangible assets		61,756	65,417
Long-term receivables		—	146,000
Investments accounted for using the equity method		379,038	360,040
Deferred income tax assets		397,104	305,617
Financial assets at fair value through profit or loss		15,903	—
		<u>11,103,716</u>	<u>12,522,445</u>
Current assets			
Inventories	<i>9</i>	5,244,583	7,590,105
Properties under development		415,549	340,796
Trade and bills receivables	<i>10</i>	1,571,477	1,363,146
Financial assets at fair value through other comprehensive income	<i>11</i>	336,761	380,615
Prepayments, deposits and other receivables		1,826,291	1,274,771
Derivative financial instruments	<i>14</i>	84,792	99,353
Pledged bank deposits		66,208	111,647
Cash and cash equivalents		2,161,795	2,468,421
		<u>11,707,456</u>	<u>13,628,854</u>
Total assets		<u>22,811,172</u>	<u>26,151,299</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		96,958	96,958
Share premium		462,059	462,059
Other reserves		1,054,138	999,848
Retained earnings		7,535,924	7,942,758
		<u>9,149,079</u>	<u>9,501,623</u>
Non-controlling interests		<u>606,279</u>	<u>599,853</u>
Total equity		<u>9,755,358</u>	<u>10,101,476</u>

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
LIABILITIES			
Non-current liabilities			
Borrowings		3,577,553	3,388,214
Lease liabilities		162,270	258,695
Deferred income tax liabilities		198,093	236,030
		<u>3,937,916</u>	<u>3,882,939</u>
Current liabilities			
Trade and bills payables	<i>12</i>	868,848	4,597,463
Supply chain financing	<i>13</i>	2,495,882	549,041
Contract liabilities		481,177	659,458
Accruals and other payables		849,954	884,143
Current income tax liabilities		222,293	123,880
Borrowings		4,145,651	5,155,158
Derivative financial instruments	<i>14</i>	7,055	142,054
Lease liabilities		47,038	55,687
		<u>9,117,898</u>	<u>12,166,884</u>
Total liabilities		<u>13,055,814</u>	<u>16,049,823</u>
Total equity and liabilities		<u>22,811,172</u>	<u>26,151,299</u>

NOTES :

1. GENERAL INFORMATION

Texhong International Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the manufacturing and sales of yarns, grey fabrics, non-woven 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, 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 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 2023 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 25 March 2024.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies 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”) as issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

HKFRSs comprise the following authoritative literature:

- Hong Kong Financial Reporting Standards
- Hong Kong Accounting Standards
- Interpretations developed by the Hong Kong Institute of Certified Public Accountants.

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 (“FVPL”), financial assets at fair value through other comprehensive income (“FVOCI”), 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 standard and amendments to HKFRSs adopted by the Group in 2023*

A number of new standard and amendments to existing standards became applicable for the current reporting period. These amendments to existing standards did not give rise to any significant impact on the Group's financial statements. These amendments are set out below:

Definition of Accounting Estimates — Amendments to HKAS 8

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction — Amendments to HKAS 12

Disclosure of Accounting Policies — Amendments to HKAS 1 and HKFRS Practice Statement 2

Insurance Contracts — HKFRS 17

International Tax Reform — Pillar Two Model Rules — Amendments to HKAS 12

(b) *The following new standard and amendments to HKFRSs have been issued but are not effective for the financial year beginning on 1 January 2023 and have not been early adopted by the Group:*

Amendments to HKAS 1 'Classification of Liabilities as Current or Non-current', effective for annual periods beginning on or after 1 January 2024.

Amendments to HKAS 1 'Non-current Liabilities with Covenants', effective for annual periods beginning on or after 1 January 2024.

Amendments to HKFRS 16 'Lease Liability in a Sale and Leaseback', effective for annual periods beginning on or after 1 January 2024.

Amendments to HKAS 7 and HKFRS 7 'Supplier Finance Arrangements', effective for annual periods beginning on or after 1 January 2024.

Hong Kong Interpretation 5 (Revised) 'Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause', effective for annual periods beginning on or after 1 January 2024.

Amendments to HKAS 21 'Lack of Exchangeability', effective for annual periods beginning on or after 1 January 2025.

Amendments to HKFRS 10 and HKAS 28 'Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture'. The effective date is to be determined.

(c) *Change in accounting policy on offsetting arrangement in long service payment scheme in Hong Kong*

In June 2022, the Hong Kong Government enacted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the “Amendment Ordinance”) which will be effective from 1 May 2025 (the “Transition Date”). Under the Amendment Ordinance, any accrued benefits attributable to the employer’s mandatory contributions under mandatory provident fund scheme (“MPF Benefits”) of an entity would no longer be eligible to offset against its obligations on long service payment (“LSP”) for the portion of the LSP accrued on or after the Transition Date. There is also a change in the calculation basis of last monthly wages for the portion of the LSP accrued before the Transition Date.

Prior to 1 January 2023, the Group applied practical expedient in HKAS 19 paragraph 93(b) (the “practical expedient”) to account for the offsettable MPF Benefits as deemed employee contributions to reduce the current service costs in the period in which the related services were rendered.

In July 2023, the HKICPA published “Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong” (the “Guidance”) which provides clarified and detailed guidance on the accounting considerations relating to the abolition of the offsetting mechanism. The Guidance clarified that following the enactment of the Amendment Ordinance, LSP is no longer a “simple type of contributory plans” to which the practical expedient had been intended to apply.

By following the Guidance, the Group has therefore changed its accounting policy and ceased to apply the practical expedient and reattribute the deemed employee contributions on a straight-line basis from the date when services by employees first lead to their benefits in terms of the LSP legislation in accordance with HKAS 19 paragraph 93(a). The cumulative effect of recognising these adjustments as of 31 December 2022 or for the year ended was not material and hence no adjustment was made to the beginning retained earnings, or another component of equity.

2. REVENUE AND SEGMENT INFORMATION

(a) Description of segments and principal activities

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, non-woven fabrics and garment fabrics as well as garments.

China now includes Mainland China, Hong Kong and Macao. Southeast Asia now includes Vietnam and Cambodia. Americas now includes United States, Mexico, Nicaragua and Honduras.

The revenues from external customers in Asia and Americas accounted for 92.9% and 6.8% (2022: 89.9% and 9.5%) of the Group’s total revenue respectively.

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

(b) Segment profit or loss

The segment information for the year ended 31 December 2023 is as follows:

	Year ended 31 December 2023														Total
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Others			
	Southeast		Americas	Others	Southeast		Americas	Southeast		Southeast		Southeast			
	China	Asia			China	Asia		China	Asia	China	Asia	China	Asia		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Total revenue	21,879,282	6,526,924	281,788	379,517	2,767,929	1,155,679	925,581	596,299	418,721	53,985	79,462	190,072	109,180	35,364,419	
Inter-segment revenue	(5,525,556)	(4,985,364)	(198,011)	(2,483)	(88,036)	(964,853)	(260,567)	(65,122)	(418,241)	—	(63,465)	—	(67,404)	(12,639,102)	
Revenue (from external customers)	16,353,726	1,541,560	83,777	377,034	2,679,893	190,826	665,014	531,177	480	53,985	15,997	190,072	41,776	22,725,317	
Timing of revenue recognition															
— At a point in time	16,353,726	1,541,560	83,777	377,034	2,679,893	190,826	665,014	531,177	480	53,985	15,997	190,072	41,776	22,725,317	
Segment results	487,410	(591,497)	(62,423)	(48,528)	476,749	(19,049)	25,590	(7,871)	1,057	(10,013)	(39,568)	8,154	12,698	232,709	
Unallocated profit														157,109	
Operating profit														389,818	
Finance income														98,358	
Finance costs														(615,950)	
Share of losses of investments accounted for using the equity method														(2,414)	
Income tax expense														(169,194)	
Loss for the period														(299,382)	
Depreciation and amortisation	(453,412)	(328,801)	(67,092)	(19,583)	(108,402)	(61,889)	(40,934)	(10,178)	(22,478)	—	(30,628)	(67)	(10,155)	(1,153,619)	

The segment information for the year ended 31 December 2022 is as follows:

	Year ended 31 December 2022											Total
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		
	Southeast				Southeast			Southeast		Southeast		
	China	Asia	Americas	Others	China	Asia	Americas	China	Asia	China	Asia	
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total revenue	25,160,952	8,268,556	239,632	469,647	3,985,993	1,165,346	1,365,820	797,831	523,424	39,469	95,987	42,112,657
Inter-segment revenue	(8,566,668)	(6,998,754)	(210,178)	—	(527,280)	(1,060,308)	(277,449)	(69,872)	(523,403)	—	(73,391)	(18,307,303)
Revenue (from external customers)	16,594,284	1,269,802	29,454	469,647	3,458,713	105,038	1,088,371	727,959	21	39,469	22,596	23,805,354
Timing of revenue recognition												
— At a point in time	16,594,284	1,269,802	29,454	469,647	3,458,713	105,038	1,088,371	727,959	21	39,469	22,596	23,805,354
Segment results	210,057	248,397	(42,021)	46,000	185,915	(12,855)	(411)	15,587	3,857	(840)	(71,904)	581,782
Unallocated profit												20,079
Operating profit												601,861
Finance income												37,743
Finance costs												(504,604)
Share of profits of investments accounted for using the equity method												36,159
Income tax credit												30,027
Profit for the period												201,186
Depreciation and amortisation	(407,538)	(323,725)	(45,910)	(18,114)	(94,090)	(41,603)	(34,083)	(10,230)	(23,080)	—	(30,677)	(1,029,050)

(c) Segment assets and liabilities

The segment assets and liabilities as at 31 December 2023 are as follows:

	As at 31 December 2023													Total
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics		Others		
	Southeast		Americas	Others	Southeast		Americas	Southeast		Southeast		Southeast		
	China	Asia			China	Asia		China	Asia	China	Asia	China	Asia	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Total segment assets	8,270,885	5,317,237	1,239,803	451,234	3,196,269	858,792	568,174	344,806	448,149	4,563	490,483	495,389	365,095	22,050,879
Unallocated assets														760,293
Total assets of the Group														22,811,172
Total segment liabilities	(4,794,702)	(2,730,622)	(968,097)	(289,962)	(617,767)	(635,743)	(332,710)	(202,918)	(365,251)	(373)	(498,084)	(414,740)	(353,493)	(12,204,462)
Unallocated liabilities														(851,352)
Total liabilities of the Group														(13,055,814)
Addition to non-current assets	218,189	125,636	51,060	1,144	83,459	65,146	16,640	3,028	11,445	—	2,195	—	321,059	899,001

The segment assets and liabilities as at 31 December 2022 are as follows:

	As at 31 December 2022													Total
	Yarns				Garment fabrics and Garments			Grey fabrics		Non-woven fabrics				
	Southeast		Americas	Others	Southeast		Americas	Southeast		Southeast		Southeast		
	China	Asia			China	Asia		China	Asia	China	Asia	China	Asia	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Total segment assets	10,815,352	6,156,506	1,189,212	507,466	3,452,885	1,415,621	626,556	365,726	454,044	2,668	537,003	25,523,039		
Unallocated assets												628,260		
Total assets of the Group												26,151,299		
Total segment liabilities	(5,968,788)	(3,037,955)	(862,945)	(326,382)	(206,986)	(1,140,683)	(407,921)	(213,425)	(398,391)	(135)	(503,779)	(13,067,390)		
Unallocated liabilities												(2,982,433)		
Total liabilities of the Group												(16,049,823)		
Addition to non-current assets	830,096	724,655	381,479	14,397	149,393	116,623	27,350	20,236	120,625	—	6,176	2,391,030		

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Other income — net		
Subsidy income (a)	100,049	115,179
Rental income	42,212	26,843
Depreciation of investment properties	<u>(27,768)</u>	<u>(18,970)</u>
Total other income — net	<u><u>114,493</u></u>	<u><u>123,052</u></u>
Other gains/(losses) — net		
Gains on sales of pollution discharge rights	325,055	—
Gains on disposal of property, plant and equipment and land use rights	182,841	—
Gains on disposal of subsidiaries	<u>92,089</u>	<u>—</u>
Derivative financial instruments at fair value through profit or loss:		
— Realised gains/(losses)	130,977	(11,182)
— Unrealised gains	120,438	67,621
Financial assets at fair value through profit or loss		
— Realised gains	5,996	27,741
— Unrealised gains	3,454	—
Foreign exchange losses — net	(100,927)	(162,354)
Compensation for order cancellation	<u>16,222</u>	<u>12,567</u>
Others	<u>13,719</u>	<u>30,847</u>
Total other gains/(losses) — net	<u><u>789,864</u></u>	<u><u>(34,760)</u></u>

- (a) The subsidy income was mainly related to incentives for development in Mainland China provided by municipal governments based on the amounts of value added tax and income tax paid. The Group has received all the subsidy income and there was no future obligation related to these subsidy income.

4. EXPENSES BY NATURE

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Raw materials and consumables used	16,229,059	17,944,112
Changes in inventories of finished goods and work in progress_ <u>(Note 9)</u>	1,169,481	(1,523,251)
Employment benefit expenses	2,366,827	2,594,979
Utilities	1,559,087	1,528,920
Depreciation and amortisation	1,125,851	1,010,080
Transportation costs	353,858	428,899
Office expenses	123,001	125,675
Impairment charges on property, plant and equipment	3,978	—
Auditor's remuneration		
— Annual audit services	3,500	3,500
— Special audit services	—	3,000
— Non-audit services	1,400	1,335
Rental expenses for buildings, machinery and others	6,525	27,842
Net (reversal)/accrual of provision for decline in value of inventories <u>(Note 9)</u>	(262,591)	495,159
Losses on disposal of property, plant and equipment	—	3,780
Other expenses	491,662	608,140
	<u>23,171,638</u>	<u>23,252,170</u>
Total cost of sales, selling and distribution costs and general and administrative expenses		

5. FINANCE COSTS — NET

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest expenses		
— Borrowings	533,080	364,426
— Long term payables	—	855
— Lease liabilities	11,343	10,183
	<u>544,423</u>	<u>375,464</u>
Net exchange losses on financing activities	78,108	192,747
Less: finance costs capitalised in building and machinery in property, plant and equipment	(6,581)	(63,607)
	<u>615,950</u>	<u>504,604</u>
Finance costs		
Interest income — interest income on bank deposits	(98,358)	(37,743)
	<u>517,592</u>	<u>466,861</u>
Net finance costs		

6. INCOME TAX EXPENSE/(CREDIT)

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current tax on profits for the year	298,901	210,397
Deferred income tax	<u>(129,707)</u>	<u>(240,424)</u>
	<u><u>169,194</u></u>	<u><u>(30,027)</u></u>

(a) Hong Kong profits tax

Subsidiaries incorporated in Hong Kong are subject to profits tax at a rate of 16.5% (2022: 16.5%).

(b) Mainland China enterprise income tax

Effective from 1 January 2008, the subsidiaries established in Mainland China are required to pay income tax at a rate of 25% in accordance with the Corporate Income Tax Law of the PRC.

As approved by the relevant tax bureau in Mainland China, seventeen subsidiaries of the Company in the PRC obtained High and New Technology Enterprises (“HNTE”) status and are entitled to a preferential tax rate of 15% during the year (2022: sixteen subsidiaries). The status is subject to a requirement that these subsidiaries reapply for HNTE status every three years.

(c) Vietnam income tax

As approved by the relevant tax bureau in Vietnam, subsidiaries established in Vietnam are entitled to four years’ exemption for income taxes followed by nine years of a 50% tax reduction based on the income tax rate of 20% (2022: 20%), commencing from the first profitable year after offsetting the losses carried forward from the previous years, and are entitled to a preferential income tax rate of 10% for 15 years, commencing from the first year generating income from the operation.

The applicable tax rates for all subsidiaries in Vietnam range from nil to 20% during the year (2022: 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 Company's subsidiary established in Macao is subject to an income tax rate of 12% (2022: 12%). No provision for Macao profits tax has been made as the Group had no assessable profit arising in or derived from Macao during the year (2022: nil).

The Company's subsidiary established in Uruguay is subject to an income tax rate of 25% (2022: 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 (2022: nil).

The Company's subsidiary established in Cambodia is subject to income tax at the rate of 20% (2022: 20%). No provision for Cambodia profits tax has been made as the Group had no assessable profit arising in or derived from the subsidiary during the year (2022: nil).

The Company's subsidiaries established in Nicaragua are subject to income tax at the rate of 30% (2022: 30%). As approved by relevant tax bureau in Nicaragua, the subsidiaries are entitled to exemption from profits tax during the year (2022: exempted).

The Company's subsidiaries established in Samoa are exempted from profits tax during the year (2022: exempted).

The Company's subsidiary established in Turkey is subject to income tax at the rate of 25% (2022: 23%).

The Company's subsidiaries established in the United States are subject to income tax rate within the range from 27.5% to 30% during the year (2022: 27.5% to 30%).

The Company's subsidiaries established in Mexico are subject to income tax at the rate of 30% (2022: 30%).

The Company's subsidiaries established in Honduras are subject to income tax at the rate of 25% (2022: 25%).

7. (LOSSES)/EARNINGS PER SHARE

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2023	2022
(Loss)/profit attributable to owners of the Company (RMB'000)	<u>(375,700)</u>	<u>156,808</u>
Weighted average number of ordinary shares in issue (thousands)	<u>918,000</u>	<u>918,000</u>
Basic (losses)/earnings per share (RMB per share)	<u>(0.41)</u>	<u>0.17</u>

(b) Diluted

Diluted (losses)/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.

	2023	2022
(Loss)/profit attributable to owners of the Company (RMB'000)	<u>(375,700)</u>	<u>156,808</u>
Weighted average number of ordinary shares in issue (thousands)	<u>918,000</u>	<u>918,000</u>
Adjustments for:		
— Share options (thousands)	<u>—</u>	<u>144</u>
Weighted average number of ordinary shares for diluted (losses)/earnings per share (thousands)	<u>918,000</u>	<u>918,144</u>
Diluted (losses)/earnings per share (RMB per share)	<u>(0.41)</u>	<u>0.17</u>

8. DIVIDENDS

No dividend was paid in 2023 (2022: RMB766,436,000, HKD0.95 per ordinary share).

	2023 RMB'000	2022 <i>RMB'000</i>
Final dividend for the year ended 31 December 2022 of HKD nil (2021: HKD0.57) per ordinary share	—	447,492
Interim dividend for the year ended 31 December 2023 HKD nil (2022: HKD0.38) per ordinary share	—	318,944
	<u>—</u>	<u>318,944</u>
	<u>—</u>	<u>766,436</u>

No proposal of final dividend in respect of the year ended 31 December 2023 has been made per ordinary share (2022: nil).

9. INVENTORIES

	2023 RMB'000	2022 <i>RMB'000</i>
Raw materials	3,076,504	4,515,136
Work-in-progress	360,810	604,728
Finished goods	2,149,564	3,075,127
	<u>5,586,878</u>	<u>8,194,991</u>
Less: provision for write-down of inventories to net realisable value	<u>(342,295)</u>	<u>(604,886)</u>
	<u>5,244,583</u>	<u>7,590,105</u>

The cost of inventories recognised as expense and included in cost of sales amounted to RMB17,398,540,000 (2022: RMB16,420,861,000) (Note 4).

Reversal of write-downs of inventories to net realisable value amounted to RMB262,591,000 (2022: accrual of RMB495,159,000). These amounts have been included in 'cost of sales' in the consolidated income statement (Note 4).

10. TRADE AND BILLS RECEIVABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	1,139,523	1,090,423
Bills receivable	<u>460,758</u>	<u>288,146</u>
	<u>1,600,281</u>	<u>1,378,569</u>
Less: provision for impairment	<u>(28,804)</u>	<u>(15,423)</u>
	<u><u>1,571,477</u></u>	<u><u>1,363,146</u></u>

As at 31 December 2023, included in the trade receivables were amounts due from related parties of RMB25,136,000 (2022: RMB13,984,000).

Due to the short-term nature of the trade and bills receivables, their carrying amount is considered to be the same as their fair value.

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) based on invoice date is as follows:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 30 days	953,266	755,648
31 to 90 days	439,782	364,322
91 to 180 days	92,457	210,345
181 days to 1 year	50,451	38,154
Over 1 year	<u>64,325</u>	<u>10,100</u>
	<u>1,600,281</u>	<u>1,378,569</u>
Less: provision for impairment	<u>(28,804)</u>	<u>(15,423)</u>
Trade and bills receivables — net	<u><u>1,571,477</u></u>	<u><u>1,363,146</u></u>

11. FINANCIAL ASSETS AT FVOCI

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current — bills receivables	<u>336,761</u>	<u>380,615</u>

Bills receivables held both by collecting contractual cash flows and selling of these assets are classified as financial assets at FVOCI.

12. TRADE AND BILLS PAYABLES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade payables	779,731	562,329
Bills payable	<u>89,117</u>	<u>4,035,134</u>
	<u>868,848</u>	<u>4,597,463</u>

As at 31 December 2023, included in trade payables were amounts due to related parties of RMB21,802,000 (2022: RMB20,288,000).

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

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 90 days	809,169	2,873,836
91 to 180 days	33,252	1,695,273
181 days to 1 year	13,041	18,667
Over 1 year	<u>13,386</u>	<u>9,687</u>
	<u>868,848</u>	<u>4,597,463</u>

13. SUPPLY CHAIN FINANCING

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current		
Guaranteed (<i>Note (a)</i>)	2,495,882	426,093
Unguaranteed	—	122,948
	<u>2,495,882</u>	<u>549,041</u>

Note:

- (a) Supply chain financing of RMB2,495,882,000 (2022: RMB426,093,000) were guaranteed by certain subsidiaries of the Group as at 31 December 2023.

At 31 December 2023, the Group's supply chain financing were repayable within 1 year.

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Assets:		
Cross currency swap contracts (<i>Note (a)</i>)	44,949	66,000
Forward foreign exchange contracts (<i>Note (b)</i>)	39,843	23,862
Cotton option contracts (<i>Note (c)</i>)	—	7,096
Cotton future contract (<i>Note (d)</i>)	—	2,395
	<u>84,792</u>	<u>99,353</u>
Liabilities:		
Forward foreign exchange contracts (<i>Note (b)</i>)	6,506	131,991
Cotton future contract (<i>Note (d)</i>)	549	—
Cross currency swap contracts (<i>Note (a)</i>)	—	10,063
	<u>7,055</u>	<u>142,054</u>

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

Notes:

- (a) The cross currency swap contracts as at 31 December 2023 comprised five contracts with notional principal amounts totaling RMB659,327,000 (2022: eight contracts with notional principal amounts totaling RMB1,703,641,000).
- (b) The forward foreign exchange contracts as at 31 December 2023 comprised one hundred and six contracts with notional principal amounts totaling RMB3,801,423,000 (2022: one hundred and seventy-two contracts with notional principal amounts totaling RMB6,743,389,000).
- (c) There is no cotton option contract as at 31 December 2023 (2022: one contract with notional principal amount of USD2,897,000).
- (d) The cotton future contract as at 31 December 2023 comprised one contract with notional principal amount of USD5,268,000 (2022: one contract with notional principal amount of USD32,482,000).

CHAIRMAN'S STATEMENT

RESULTS

In 2023, the global economy remained in a state of turmoil, as the macro-level trends that had significantly impacted multiple industries worldwide in 2022 have now trickled down to a more micro level, yielding tangible consequences. The ongoing international geopolitical tensions, reduced trade and supply chain efficiencies and inflationary pressures have further amplified the complexities and difficulties that enterprises are facing. Being the first full year in the post-pandemic era for the domestic market, 2023 has brought a renewed sense of vitality to the consumer market after a long stagnant period. Still, the reality that must be faced included shifts in the global economic growth model, as well as the post pandemic lifestyle and concept changes, which have greatly affected consumer behavior and market sentiment. For the textile and apparel industry in particular, apart from observing the overall trend of consumption downgrade, we were also witnessing a shift in consumer preferences towards concepts such as sustainable development, ethical procurement and digitalization. These factors all contributed to major adjustments within the current supply system and order structure. Nonetheless, the domestic textile and apparel market has experienced a substantial recovery in 2023. In contrast, the overseas markets remained relatively lackluster, with industry destocking efficiency falling short of expectations. Combined with the cautious sourcing strategy of downstream retailers, such developments exerted pressure on the pricing power and profit margin of the supply chain.

Against this challenging backdrop, the Group recognises the imperative of embracing adaptability and resilience to navigate shifting market dynamics and achieve long-term sustainable growth. Therefore, during the year ended 31 December 2023 (the "Year"), the Group placed substantial emphasis on controlling capital expenditures, optimising resources, and streamlining management processes, all with the aim of fostering a healthier internal environment. For instance, the Group prioritised investments that demonstrate a clear potential for return on investment and align strategically with our long-term objectives. This approach aims to preserve financial flexibility and mitigate unwarranted risks. At the same time, the Group focused its resources on product segments with better competitive advantages and higher market potential, and optimised its product portfolio and marketing efforts accordingly. Furthermore, the Group sought to strengthen regional production capacity and bolster regional supply chain flexibility by promoting vertical integration and fostering supplier partnerships, thereby mitigating risks related to global trade turbulence and improving operational flexibility.

Even though the efforts of all employees of the Group have led to some progress, still more time is needed before the full results can be manifested. In the first half of the Year, the Group focused on processing and resolving the legacy issues of the previous year, especially the impact of macro-level trends on all aspects of the business. After a series of internal adjustments, the Group started experiencing positive changes and results in the second half of the year. Regrettably, the loss incurred in the first half of the year resulted in the reporting of a loss for the annual results, signifying the first year of financial loss since the Group's establishment. In 2023, the Group's sales revenue was approximately RMB22.7 billion and the net loss was approximately RMB299.4 million.

OUTLOOK

Despite the persistent macroeconomic uncertainties and the normalisation of certain market trends and changes, the Group maintains an optimistic outlook on the resilience of the textile industry and the robustness of its own business. The market has endured its trough, and the Group has successfully overcome the challenges it previously encountered, gradually setting itself on the right track and is prepared to forge ahead. In the upcoming year, the Group will remain committed to the strategic objectives that it set previously, focusing on innovation, sustainable development, and operational excellence, while continuously optimising corporate assets and financial health. In terms of market positioning, we aim to strengthen our competitive position and seize emerging market opportunities through focusing on our advantages, and believe that the Group will emerge stronger from the current challenges and deliver long-term value to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group hereby reports its annual results for the Year to its shareholders. During the Year, the Group's revenue decreased by 4.5% to approximately RMB22.7 billion as compared with the previous year. The Group's net loss was approximately RMB299.4 million, compared with a net profit of approximately RMB201.2 million for the previous year. Loss attributable to shareholders of the Company was approximately RMB375.7 million versus profit attributable to shareholders of approximately RMB156.8 million for the previous year. Basic loss per share was RMB0.41 versus basic earning per share of RMB0.17 for the previous year.

INDUSTRY REVIEW

According to the National Bureau of Statistics of the People's Republic of China (the "PRC"), the aggregate sales achieved by sizeable textile enterprises amounted to approximately RMB2,287.9 billion in 2023, representing a year-on-year decline of 1.6%, with a total net profit of approximately RMB84 billion, representing an increase 5.9% year-on-year. The total sales of sizeable textile garment and apparel enterprises amounted to approximately RMB1,210.5 billion, representing a year-on-year decrease of 5.4%, with a net profit of approximately RMB61.4 billion, down 3.4% year-on-year. According to data from the General Administration of Customs of the PRC, the PRC exported around US\$134.5 billion worth of textile products in 2023, representing a year-on-year decrease of 8.3%, while the value of garments exported reached approximately US\$159.1 billion, a year-on-year decline of 7.8%.

According to statistics from Vietnam Customs, the export volume of yarns and staple fibers manufactured in Vietnam rose by 13.4% to approximately 1.78 million tonnes in 2023, generating approximately US\$4.4 billion in revenue, a decrease of 7.6% as compared with 2022. Garments exports declined by 11.3% to approximately US\$33.3 billion in 2023.

BUSINESS REVIEW

Affected by the international financial and political environment, 2023 was a year full of changes and uncertainties. The global economy faced various pressures. On top of rising risks associated with inflation and tightening monetary policies experienced among developed economies, there were also geopolitical conflicts that further intensified, such as the ongoing Russia-Ukraine conflict and the unexpected Israel-Palestine conflict. Impacted by such developments, the demand among overseas textile markets continued the weak trend of 2022, with the recovery failing to meet expectations, and there was still pressure to destock. In the PRC, with the full relaxation of the pandemic control policy at the beginning of 2023, market demand picked up, but the lack of export momentum led to intensified competition in the domestic market.

For the Group, revenue in the Year decreased to approximately RMB22.7 billion, a decline of 4.5% as compared with the previous year. During the Year, the Group's revenue was mainly derived from the sale of yarns, grey fabrics and garment fabrics. Revenue from the sale of yarns remained the primary source of revenue for the Group, accounting for approximately 77.2% of the total revenue for the Year. Revenue from yarn sales amounted to approximately RMB17.5 billion, which was basically the same as the previous year, and mainly due to the recovery of domestic market demand. While garment fabrics are primarily sold to overseas markets, as overseas market demand fell short of expectations during the Year, and revenue from garment fabrics decreased to approximately RMB2.9 billion, down 18.8% when compared with the previous year.

The year 2023 was the first year of the post-pandemic era of the PRC's economy, and was marked by a demand rebound in the domestic textile industry that commenced at the beginning of the year. However, the long-term impact of the COVID-19 pandemic on the PRC's economy still existed, and the decline in profitability of enterprises led to a decline in the income of residents, resulting in the "consumption downgrade" in household consumption trend that has inhibited the increase in product prices. Meanwhile, for the overseas markets, the high inflation level in developed economies also dampened demand in the textile industry. Still, the Group actively adjusted its product mix and structure to adapt to the shift in market demand, and actively destocked on the sales side. The final sales volume of yarns amounted to over 740,000 tonnes for the Year, representing an increase of 12.7% as compared with the previous year. Affected by the changes in raw material prices and consumption trends, the annual revenue from yarns for the Year amounted to approximately RMB17.5 billion, which was basically the same as the previous year.

As aforementioned, as the global economy failed to recover as expected during the Year, especially with demand in overseas markets remaining weak, the Group's production capacity was not fully utilised during the Year, particularly in the first half of the year. In addition, the pressure of destocking in the textile industry remained high, and weak market demand suppressed product prices. Consequently, the gross profit margin of yarns declined to 5.7% for the Year.

As for grey fabrics, the annual sales volume was approximately 55.3 million meters, an increase of 9.9% as compared with the previous year. Owing to adjustments made to the variety of grey fabrics, sales revenue for such fabrics decreased to approximately RMB531.7 million. Moreover, due to the impact of relatively high raw material prices, the gross profit margin of grey fabrics decreased to 6.1% from 10.2% of last year.

For woven garment fabrics, which are mainly sold in overseas markets, they were greatly affected by the weak demand in these markets. As for the main product working suits, the response to the weak market demand was relatively slow, and continued to face greater destocking pressure, with both production volume and sales under pressure. Annual sales volume decreased by 22.9% to approximately 89.7 million meters, and the sales revenue decreased by 22.3% to approximately RMB2,056.3 million. Due to the drop in the production capacity utilisation rate caused by insufficient orders, the gross profit margin declined to 12.7%.

For knitted garment fabrics, owing to the recovery of the domestic market and the shift in consumption habits towards sports and leisure, the sales volume for the year slightly increased to approximately 15,400 tonnes, representing an increase of 2.8% as compared with last year. The sales revenue decreased by 8.0% to approximately RMB797.4 million for the Year, as a result of fluctuations in raw material prices. Due to the disposal of the loss-making Vietnam factory to the Texwinca Group in November 2023, coupled with the Group's stringent control of various expenses, and further strengthening of vertical integration of the industrial chain to fully utilise internal yarns, the gross profit margin for the Year increased to approximately 8.7% from approximately 5.3% in the previous year. For further details regarding the aforementioned disposal, please refer to the section headed "Material Acquisition and Disposal" in this announcement.

The jeanswear business generated sales revenue of approximately RMB20.4 million, which was mainly from sales of garment factories in the PRC. For the trading business, it mainly involves the Group's U.S. garment fabrics and garments trading business. The gross profit margin was approximately 6.0%.

Due to higher living expenses brought about by inflation and the significant decline in the demand for anti-pandemic products related to non-woven fabrics in the post-pandemic era, the development of the non-woven fabric business (as a non-essential product) fell short of expectations. The Group has been proactively adjusting the product structure of non-woven fabrics to adapt to the changes in market demand and actively promoting further strategic cooperation with renowned customers in the industry. Sales revenue increased slightly to approximately RMB70.0 million in 2023, as compared with last year.

Based on the above analysis, the slower than expected recovery of overseas market demand, the consequent weak selling prices of the Group's products, the inability to fully utilise production capacity and the impact of consumption downgrade caused by global inflation and economic downturn were the major reasons leading to the decline in the Group's profitability. Therefore, its overall gross profit margin declined to 6.4% from 11.6% in 2022. In accordance with the established strategy in 2022, the Group actively carried out expense control, improved management efficiency and disposed of some inefficient assets during the Year. Although certain results have been achieved, it is still unable to make up for the decrease in gross profit and the increase in financing costs caused by the increase in interest rates, and such that the loss attributable to shareholders for the Year was approximately RMB375.7 million, as compared with a profit attributable to shareholders of RMB156.8 million for last year. Basic loss per share was RMB0.41, compared with basic earnings per share of RMB0.17 for last year.

PROSPECTS

As of 31 December 2023, the Group's major production facilities consisted of approximately 4.18 million spindles, of which 2.43 million spindles were in the PRC and 1.75 million spindles were located overseas. It also had approximately 1,700 weaving and knitting machines and related dyeing equipment. Due to technological transformation and upgrade and the reallocation of production capacity, the Group disposed of some old equipment in 2023.

As mentioned above, affected by the ongoing Russia-Ukraine conflict and the unexpected Israel-Palestine conflict, coupled with a rise in all-round competitions among great powers, the global supply chain market was unable to operate in a normal, proper manner. With the downturn of several major economies resulting in the decline in household income and global inflation leading to high commodity prices, the textile industry in 2023, despite showing a stabilising and recovery trend in the fourth quarter, was generally sluggish for the year as a whole. Moreover, the textile industry continues to face overcapacity and high inventory pressure. Still, with the easing of inflationary pressure in the U.S. in 2023, the U.S. dollar is expected to enter a gradual interest rate reduction path in 2024, which combined with a series of economic stimulus policies adopted by the PRC's economy, market demand is anticipated to recover gradually in 2024, and the Group's profitability is expected to improve likewise.

In 2023, the Group conducted a series of restructuring exercises, divesting certain low-profit assets while at the same time re consolidating some inefficient assets, which laid the cornerstone for its development in 2024. The Group will continue its strategy from last year while building on the foundation of 2023. It will also strengthen the construction of platforms for the functional business departments, further reduce production and administration costs and improve management efficiency. Based on current market conditions, and excluding the sales volume of the trading business, the Group targets to sell 760,000 tonnes of yarns, 92 million meters of woven garment fabrics and 12,000 tonnes of knitted garment fabrics in 2024.

In terms of new investment, the Group adopted a proactive planning and relatively conservative strategy during the year, basically maintaining the scale of production capacity in 2022. Presently, the textile industry is moving towards a high-end, intelligent and green trend. The Group will actively embrace this change and further transform and upgrade its original production capacity in 2024 to improve efficiency. At the same time, it will increase research and development efforts in green and environmentally friendly products. Furthermore, the Group aims to strengthen cooperation with industry leaders in the garment fabrics businesses sector to enhance overall product responsiveness and gain further access to the industry chain for boosting sales revenue. Currently, the Group's on-going projects mainly include the construction of yarn factories and a woven garment fabrics factory in Vietnam. The construction of the weaving factory is mainly to take up the production of a woven garment fabrics factory in Shaoxing, the PRC, following land resumption efforts by the local government.

In response to the need of transformation and upgrading in the printing and dyeing chemical electroplating industry in the urban area of Shaoxing, the PRC, and related local government policies, Zhejiang Qing Mao Weaving, Dyeing & Printing Co., Ltd (浙江慶茂紡織印染有限公司), an indirect non-wholly owned subsidiary of the Company entered into an asset disposal agreement as vendor with Shaoxing Paojiang Venture Construction Development Co., Ltd. (紹興袍江創業建設發展有限公司) as purchaser on 3 November 2023. This agreement involved the disposal of certain plots land located in Shaoxing, along with the buildings and infrastructure erected thereon (the "Zhejiang Disposal"), including the mentioned weaving factory. The consideration for the Zhejiang Disposal was approximately RMB975.1 million. For further information regarding the Zhejiang Disposal, please refer to the announcements of the Company dated 3, 24 and 27 November 2023 and the circular of the Company dated 22 December 2023.

On 25 July 2023, the Group continued to be ranked on the “Fortune China 500” list, compiled by Fortune — a renowned international publication, testifying to the Group’s growth and widespread recognition. The Group will continue to work tirelessly to bring long-term and sustainable returns to its shareholders.

With the aforementioned adjustment strategies and business development plans, the Group is well prepared to respond to market changes and seize new opportunities, while maximising its use of resources and production capacity, thereby preserving and generating value for the Company’s shareholders.

FINANCIAL REVIEW

Sales

During the Year, the sales of the Group mainly comprised the sales of yarns, grey fabrics, non-woven fabrics and garment fabrics. Yarns continued to be the Group’s major product. Given the decrease in sales unit price of yarns, the revenue of yarns in 2023 decreased by approximately 0.3% as compared to that of 2022. Analysis of the Group’s sales by products is shown below.

	2023	2022	Revenue change
	<i>RMB’000</i>	<i>RMB’000</i>	
Yarns	17,537,022	17,587,450	-0.3%
Grey fabrics	531,657	727,980	-27.0%
Woven garment fabrics	2,056,331	2,647,893	-22.3%
Knitted garment fabrics	797,448	866,442	-8.0%
Jeanswear	20,413	91,344	-77.7%
Trading	1,480,616	1,822,180	-18.7%
Non-woven fabrics	69,982	62,065	12.8%
Others	231,848	—	
	<u>22,725,317</u>	<u>23,805,354</u>	<u>-4.5%</u>
Total	<u>22,725,317</u>	<u>23,805,354</u>	<u>-4.5%</u>

	Sales Volume		Selling price		Gross profit margin	
	2023	2022	2023	2022	2023	2022
Yarns (Tonne/RMB per tonne)	740,679	657,163	23,677	26,763	5.7%	10.6%
Grey fabrics (Million metres/RMB per metre)	55.3	50.3	9.6	14.5	6.1%	10.2%
Woven garment fabrics (Million metres/RMB per metre)	89.7	116.3	22.9	22.8	12.7%	24.6%
Knitted garment fabrics (Tonne/RMB per tonne)	15,412	14,991	51,742	57,797	8.7%	5.3%
Jeanswear (Million pieces/RMB per piece)	0.4	1.7	51.0	53.7	-17.9%	3.7%
Non-woven fabrics (Tonne/RMB per tonne)	2,956	3,156	23,675	19,666	-50.9%	-32.0%

The Chinese textile market is the Group's major market, and accounted for approximately 68.9% of our total sales of 2023. Due to the continuously weakened demand of textiles in overseas markets, the percentage for the Group's overseas sales has decreased in 2023.

As at the date of this announcement, the Group has more than 5,000 customers. As the Group produces differentiated products, the Group does not rely on orders from a particular customer. The top ten largest customers of the Group only accounted for approximately 13.4% of the total sales of the Group for the year ended 31 December 2023.

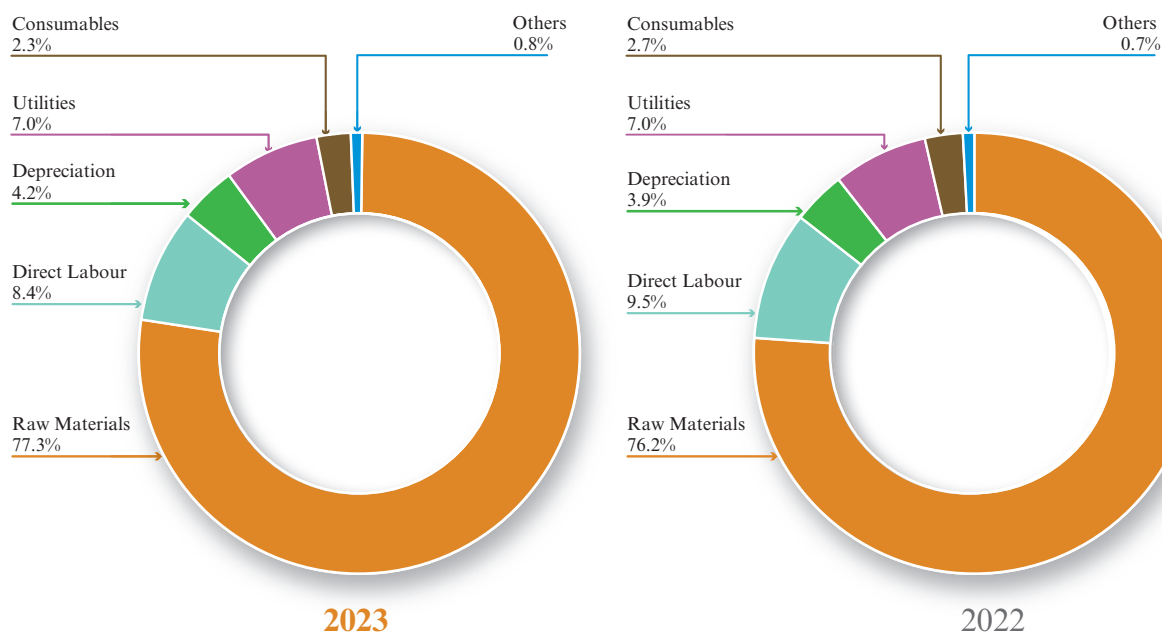
Gross profit and gross profit margin

For the year ended 31 December 2023, gross profit of the Group decreased from approximately RMB2,755.6 million for 2022 to approximately RMB1,462.6 million for 2023. The overall gross profit margin decreased by 5.2 percentage points to 6.4% as compared to that of 2022. The decrease in the gross profit margin was mainly due to the continuously weakened demand for textile in overseas markets during the Year, which resulted in weak selling prices of the Group's products and the lower production capacity utilization rate, which in turn affected the Group's unit cost of production and gross profit margin.

Cost structure

For the year ended 31 December 2023, cost of sales rose by 1.0% to approximately RMB21,262.7 million when compared with 2022. Raw materials cost accounted for about 77.3% of the total cost of sales of 2023. Cotton is our major raw material.

The breakdown of our cost of sales in 2023 and 2022 is shown below:



Selling and distribution costs

For the year ended 31 December 2023, the Group's selling and distribution costs amounted to approximately RMB730.4 million, representing a decrease of 17.6% when compared to that of 2022. It was mainly due to high costs related to freight and port charges as a result of the impacts of pandemic in 2022.

General and administrative expenses

For the year ended 31 December 2023, the Group's general and administrative expenses amounted to approximately RMB1,178.6 million, which represented a decrease of 10.4% when compared with 2022, and accounted for 5.2% of the Group's revenue. The decrease was mainly due to the decrease in salaries of management personnel.

Cash flows

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	1,985,629	1,620,127
Net cash generated from/(used in) investing activities	29,529	(1,725,984)
Net cash used in financing activities	(2,337,584)	(30,664)
Effect of foreign exchange rate changes	15,800	99,535
Cash and cash equivalents at end of the year	<u>2,161,795</u>	<u>2,468,421</u>

For the year ended 31 December 2023, net cash generated from operating activities of the Group amounted to approximately RMB1,985.6 million, which represents an increase comparing with 2022 mainly because the Group actively control inventory to improve working capital efficiency in 2023. Net cash generated from investing activities amounted to approximately RMB29.5 million, which was mainly due to the reduction of capital expenditure payments made by the Group during the Year, while obtaining the partial receiveable from the disposal of knitted factory in Vietnam and the land and factory located in Shaoxing, the PRC as mentioned above. During the Year, net cash used in financing activities amounted to approximately RMB2,337.6 million, which was mainly due to the enhancement of capital control during the Year and the decrease in bank borrowings under the improved operating conditions.

Liquidity and financial resources

As at 31 December 2023, the Group's bank and cash balances (including pledged bank deposits) amounted to approximately RMB2,228.0 million (as at 31 December 2022: RMB2,580.1 million). As at 31 December 2023, inventories and trade and bills receivables (including financial assets at fair value through other comprehensive income) of the Group decreased by approximately RMB2,345.5 million to approximately RMB5,244.6 million and increased by approximately RMB164.5 million to approximately RMB1,908.2 million respectively (as at 31 December 2022: approximately RMB7,590.1 million and approximately RMB1,743.8 million respectively). Turnover days for inventories and trade and bills receivables were 109 days and 29 days respectively, compared to 126 days and 28 days in 2022 respectively. The inventory turnover days significantly decreased from last year, mainly because the Group actively controlled inventory to improve working capital efficiency in 2023. The turnover days for trade and bills receivables were slightly higher than that of the previous year, which was mainly because of the increase in the balance of receivables at the end of 2023 as a result of the sales revenue of the fourth quarter in 2023 having significantly increased.

Trade and bills payables of the Group (including supply chain financing) decreased by approximately RMB1,781.8 million to approximately RMB3,364.7 million as at 31 December 2023 (as at 31 December 2022: RMB5,146.5 million), the payable turnover days was 72 days, compared to 78 days in 2022. The decrease in the payables and the payable turnover days was mainly attributable to the advance settlement of substantial US-dollar letter of credit by the Group during the Year.

The total bank borrowings of the Group decreased by approximately RMB820.2 million to approximately RMB7,723.2 million as at 31 December 2023. Current bank borrowings decreased by approximately RMB1,009.5 million to approximately RMB4,145.7 million while non-current bank borrowings increased by approximately RMB189.3 million to approximately RMB3,577.6 million. The Group optimized its financing structure, repaid short-term borrowings to reduce the Group's debt level and increased long-term borrowings to ensure the safety of the Group's cash flow.

As at 31 December 2023 and 2022 the key financial ratios of the Group were as follows:

	2023	2022
Current ratio	1.28	1.12
Debt to equity ratio ¹	0.84	0.90
Net debt to equity ratio ²	0.60	0.63
Gearing ratio ³	0.57	0.61

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

³ Based on total liabilities over total assets

Borrowings

As at 31 December 2023, the Group's total bank borrowings amounted to approximately RMB7,723.2 million, among which approximately RMB3,839.7 million (49.7%) was denominated in Renminbi ("RMB"), approximately RMB524.5 million (6.8%) was denominated in U.S. dollars ("US\$" or "USD"), approximately RMB2,496.9 million (32.3%) was denominated in Hong Kong dollars ("HK\$" or "HKD"), approximately RMB856.2 million (11.1%) was denominated in Vietnamese dong ("VND") and approximately RMB5.9 million (0.1%) was denominated in Australian dollars ("AUD"). These bank borrowings have borne interest rates ranging from 0.80% to 6.54% per annum (2022: 0.80% to 7.23%).

As at 31 December 2023, the Group had current bank borrowings of approximately RMB4,145.7 million (as at 31 December 2022: approximately RMB5,155.2 million). The decrease in current bank borrowings was mainly because of the repayment of short-term bank borrowings by the Group to reduce the overall level of indebtedness.

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

As at 31 December 2023, bank borrowings of approximately RMB53.7 million (as at 31 December 2022: approximately RMB5.8 million) were secured by bank deposits with a net book amount of approximately RMB54.0 million (as at 31 December 2022: approximately RMB6.0 million), and bank borrowings of RMB200 million (as at 31 December 2022: approximately RMB200 million) were secured by export tax rebates entitled to be collected.

Foreign exchange risk

The Group mainly operates in the PRC and Vietnam. Most of the Group's transactions, assets and liabilities are denominated in Renminbi, US\$ and HK\$. 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 depreciation risk of RMB, the Group has purchased certain amount of currency option contracts and currency swap contracts so that a significant part of its foreign currency exposure is hedged.

Capital expenditure

For the year ended 31 December 2023, the capital expenditure of the Group amounted to approximately RMB899.0 million (2022: approximately RMB2,391.0 million). It mainly related to the unfinished construction projects, equipment renovation in China, Vietnam and the Americas during the Year and the acquisition of certain assets from Texhong Industrial Park Vietnam Limited ("Texhong Industrial Park") in Vietnam. For further details of the acquisition of the above assets, please refer to the announcements of the Company dated 7 November 2022, 8 December 2022, 3 February 2023 and 15 March 2024.

Contingent liabilities

As at 31 December 2023, the Group had no material contingent liabilities.

Human resources

As at 31 December 2023, the Group had a total workforce of 27,655 employees (as at 31 December 2022: 30,206), of whom 15,733 employees were based in the sales headquarters and manufacturing plants in Mainland China. The remaining 11,922 employees were stationed in regions outside Mainland China, including Vietnam, Turkey, the Americas, Hong Kong of China and Macao of China. The Group has a total of 14,454 female employees, accounted for 52.3% of the total number of employees as at 31 December 2023. During the Year, the Group incurred total staff costs of approximately RMB2.4 billion (2022: approximately RMB2.6 billion).

The Group will continue to optimize its human resources structure and offer a competitive remuneration package to its employees with reference to factors including the prevailing market conditions and the performance of the Group and the merits of the employees regardless of their gender, race, age or religion. As the Group's success is dependent on the contribution of a group of skillful and motivated employees who form functional departments, the Group is committed to creating a learning and sharing culture in the organization, and placing strong emphasis on the training and development of individual staff and team building.

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. In 2023, the Group's results were primarily affected by the continued weakening demand on textiles in overseas markets. The Board does not recommend a payment of final dividend for the year ended 31 December 2023.

Events after the reporting period

Reference is made to the announcements of the Company dated 7 November 2022, 8 December 2022, 3 February 2023 and 15 March 2024 in relation to, among others, the asset purchase agreement entered into between a wholly-owned subsidiary of the Company ("HK Co") and Texhong Industrial Park on 7 November 2022, pursuant to which HK Co agreed to purchase, and Texhong Industrial Park agreed to sell, certain plots of land and infrastructure and ancillary equipment thereon. Pursuant to the asset purchase agreement, Texhong Industrial Park had undertaken to HK Co that, among others, it shall complete the registration of the transfer of the legal title of the subject land (the "Registration") within 12 months from the completion date. As additional time was needed to, among others, liaise with the local authorities to understand the proper procedures for the Registration and make applications before proceeding with the transfer of the relevant land use rights, HK Co and Texhong Industrial Park, after arm's length negotiations, entered into a second supplemental agreement, pursuant to which Texhong Industrial Park has undertaken to complete the Registration by 31 March 2025.

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the year ended 31 December 2023.

Material acquisition and disposal

Reference is made to the announcements of the Company dated 4 August 2023, 28 September 2023, 31 October 2023 and 30 November 2023 in relation to the disposal of the entire equity interests in Fashion Time Viet Nam Limited (時針越南有限公司) (the "Target Company") and the assignment of a loan owing by the Target Company. On 4 August 2023, Fashion Time Vietnam Holdings Limited (時針越南控股有限公司) ("FTVN") as vendor entered into the conditional equity transfer agreement with Nice View Dyeing & Bleaching Limited (永景實業有限公司) ("Nice View") as purchaser, pursuant to which Nice View agreed to acquire the entire equity interests in the Target Company and take up the assignment of a loan owed by the Target Company to FTVN (the "Vietnam Disposal") from FTVN. The consideration for the Vietnam Disposal was approximately USD78,591,942 (subject to adjustment). Completion of the Vietnam Disposal took place on 30 November 2023.

CORPORATE GOVERNANCE

The Group is 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.

As at the date of this announcement, the Board comprises two 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 Part 2 of Appendix C1 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). During the year ended 31 December 2023, the Company had complied with the Code Provisions.

CHANGES OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES UNDER RULE 13.51B(1) OF THE LISTING RULES

Below is the information relating to the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

- Mr. Ting Leung Huel, Stephen ceased to be an independent non-executive Director, chairman of each of the remuneration committee and audit committee of the Board, and member of each of the nomination committee and the environmental, social and governance committee of the Board with effect from the conclusion of the annual general meeting of the Company held on 25 May 2023. For further information regarding the retirement of Mr. Ting Leung Huel, Stephen, please refer to the circular of the Company dated 21 April 2023 (the “Circular”) and the announcement of the Company dated 25 May 2023 (the “Announcement”).
- Mr. Shu Wa Tung, Laurence has been elected as an independent non-executive Director by the Shareholders at the annual general meeting of the Company with effect from the conclusion thereof held on 25 May 2023, and was appointed as the chairman of each of the audit committee and remuneration committee of the Board, and member of each of the nomination committee and the environmental, social and governance committee of the Board on the same date. For further information regarding Mr. Shu Wa Tung, Laurence and his appointment, please refer to the Circular and the Announcement.
- Mr. Tang Daoping ceased to be an executive Director and chairman of the environmental, social and governance committee of the Company (the “ESG Committee”) with effect from 8 December 2023.
- Mr. Zhu Yongxiang was appointed as the chairman of the ESG Committee with effect from 8 December 2023.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors’ securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix C3 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors’ securities transactions during the year ended 31 December 2023.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, namely, Mr. Shu Wa Tung, Laurence, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Shu Wa Tung, Laurence is the chairman of the audit committee. 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 audited consolidated financial statements of the Group for the year ended 31 December 2023 and have no disagreement with the accounting treatment or standards adopted.

REMUNERATION COMMITTEE

The remuneration committee of the Board comprises three independent non-executive Directors, namely Mr. Shu Wa Tung, Laurence, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Shu Wa Tung, Laurence is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

NOMINATION COMMITTEE

The nomination committee of the Board comprises, Mr. Hong Tianzhu (the chairman and executive Director), and three independent non-executive Directors, namely Mr. Shu Wa Tung, Laurence, Professor Tao Xiaoming and Professor Cheng Longdi. Mr. Hong Tianzhu is the chairman of the nomination committee. The nomination committee is principally responsible for reviewing the structure, size and composition of the Board, identifying individuals suitably qualified to become Board members, assessing the independence of independent non-executive Directors, and making recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE

The ESG committee of the Board comprises four members, namely, Mr. Zhu Yongxiang, Professor Tao Xiaoming, Professor Cheng Longdi and Mr. Shu Wa Tung, Laurence. Mr. Zhu Yongxiang is the chairman of the ESG committee. The ESG committee is mainly responsible for overseeing and reporting to the Board on matters relating to ESG of the Group and ensuring compliance with legal and regulatory requirements on ESG including corporate governance principles applicable to the Company.

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 2023 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 International Group Limited
Hong Tianzhu
Chairman

Hong Kong
25 March 2024

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

Executive Directors:

Mr. Hong Tianzhu
Mr. Zhu Yongxiang

Independent non-executive Directors:

Prof. Tao Xiaoming
Prof. Cheng Longdi
Mr. Shu Wa Tung, Lawrence