

# TARGET

## Intelligence Report

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T U E S D A Y

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### **TEXHONG INTERNATIONAL GROUP LTD: THE FOR-SALE FLAG OF VALUABLE ASSETS IS HOISTED ON HIGH**

It is highly likely that Senior Management of Texhong International Group Ltd (天虹國際集團有限公司) (formerly known as Texhong Textile Group Ltd [天虹紡織集團有限公司], up to January 17, 2023) (Code: 2678, Main Board, The Stock Exchange of Hongkong Ltd) would very much like to try to forget – in part, at least – a great deal of the problems that the Company had been forced to endure in respect of the Financial Year, ended December 31, 2022.

Whilst a large number of the statistics, with regard to a goodly part of the financials of the 2022-Year, was amongst the worst of the past, five Financial Years, in spite of this factor, the Bottom Line of the Company continued to remain in the black ... but only just.

At Page Five of the 2022 Annual Report of the Company, the Chairman of the Board of Directors of Texhong International Group Ltd, Mr Hong Tian Zhu (洪天祝), attempted to expand on the trials and tribulations that befell his Company, during the Financial Year, ended December 31, 2022:

#### ***‘RESULTS***

*‘The textile industry underwent unprecedented challenges and changes in 2022. On the one hand, while most foreign countries and markets have gradually recovered from the impact of the COVID-19 pandemic, the Chinese market faced its most difficult period in the fight against the virus in 2022. Since the second quarter, the highly transmissible Omicron strain caused a serious situation in some cities and regions in the PRC, leading to the total or partial suspension of major commercial and trading hubs, whilst normal operations in different aspects of businesses such as procurement, production, logistics and retail were severely affected. On the other hand, the overall global consumption demand was weaker than expected in 2022. The weakened downstream market led to higher inventory levels in the textile and apparel industry, thereby exerting pressure on exports of textile products and apparels. Meanwhile, the significant fluctuation in the Renminbi exchange rate posed a huge challenge to export trade as well as corporate foreign exchange management. Regarding raw materials, with the Russia-Ukraine tension*

*severely impacting the commodity price, coupled with multiple and frequent COVID-19 epidemic outbreaks weakening market demand in China, domestic and international cotton prices both continued to decline in the second half of 2022. Meanwhile, international cotton prices experienced a milder decline under the influence of global inflation, widening the gap between domestic and international cotton prices. Such a challenging macro environment resulted in a decline in the capacity utilization rate of many factories in the industry, and in turn a sharp decline in the output and profitability of textile and apparels.*

*‘In such a market environment, the Group swiftly adjusted its product structure and capacity deployment in response to market dynamics and demand to ensure maximum capacity utilization, while vigorously integrating resources and rectifying inefficient production capacity. To improve management efficiency, the Group took actions to strengthen internal management system and restructure personnel, so that the management system truly matches up with the business development strategy of the Group. The Group also proactively collaborated with downstream customers and brands to maintain information exchange, and minimize waste and conflicts in various parts of the supply chain. Thanks to the concerted efforts of all the Group’s employees, the Group’s sales revenue reached approximately RMB23.8 billion. Despite a slight decrease from the preceding year, the sales revenue remained at a reasonable level, considering the exceptionally positive circumstances of the market in the preceding year, and the market and raw material price challenges faced by the Group this year. Nonetheless, the Group’s profitability was still affected. In 2022, profit attributable to shareholders of the Company amounted to approximately RMB156.8 million, and basic earnings per share were RMB0.17.’*

At the following Page Six of the 2022 Annual Report of the Company, under the heading, ‘**OUTLOOK**,’ Chairman Hong Tian Zhu went on record, stating:

*‘Moving forward to 2023, domestic and foreign retail markets continue to encounter relatively notable challenges. The turnaround of the overall situation in the Chinese textile industry is uncertain, but with the relaxation of COVID-19 pandemic prevention policies in the PRC, business operations and consumption have gradually returned to normal. Concurrently, the trend and resolute policies aiming at driving economic development lend robust support to the industry’s revitalization ...’*

**THE FINANCIALS OF  
TEXHONG INTERNATIONAL GROUP LTD**

At Page 96 of the 2022 Annual Report, the ‘**CONSOLIDATED INCOME STATEMENT**’ was introduced as follows:

	For The Financial Year, Ended December 31		Percentage Increase/(Decrease)*
	2022	2021	
	<b>All Figures Are Denominated In Renminbi (RMB)</b> (except where otherwise stipulated)		

Revenue	<b>23,805,354</b>	26,521,193	<b>(10.24)</b>
Gross Profit	<b>2,755,622</b>	5,851,971	<b>(52.91)</b>
Gross Profit Margin*	<b>11.58 percent</b>	22.07 percent	<b>(47.53)</b>
Operating Profit	<b>601,861</b>	3,423,197	<b>(82.42)</b>
Profit Before Income Taxation	<b>171,159</b>	3,340,151	<b>(94.88)</b>
Profit For The Year	<b>201,186</b>	2,741,616	<b>(92.66)</b>
Net Profit Attributable To Shareholders Of The Company	<b>156,808</b>	2,685,170	<b>(94.16)</b>
Earnings Per Share Attributable To Shareholders Of The Company (basic and diluted)	<b>0.17 RMB</b>	2.93 RMB	<b>(94.20)</b>

\* These are **TARGET**'s calculations.

\*\* The **Renminbi**, or **RMB**, is the functional currency of The People's Republic of China.

At Pages 94 and 95 of the 2022 Annual Report of the Company, under the heading, '**CONSOLIDATED BALANCE SHEET**,' this medium took note the following statistics:

	<u>2022</u> <u>RMB'000</u>	<u>2021</u> <u>RMB'000</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
Total Assets (Shareholders' Funds):	26,151,299	24,442,884	6.99
<b><u>Under Current Liabilities</u></b>			
Borrowings:	5,155,158	3,831,662	34.54

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