SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS

The Group is principally engaged in the manufacture and sale of yarn and grey fabrics. The Group is one of the largest cotton textile products manufacturers in the PRC. The Group's strategy is to remain competitive and create profits through the manufacture and sale of contemporary high value-added textile products. During the Track Record Period, the Group's main focus was on the promotion and sale of its spandex stretch yarn and spandex stretch grey fabrics. Sales of spandex stretch yarn and spandex stretch grey fabrics in aggregate represented approximately 31.1%, 65.7%, 74.7% and 74.6% of the Group's turnover during the Track Record Period respectively. The Group also produces other types of yarn and fabrics. During the Track Record Period, the Group manufactured over 380 types of yarn products and over 2,900 types of fabric products. The Directors believe that the Group is regarded by its customers as a reputable manufacturer of high quality textile products.

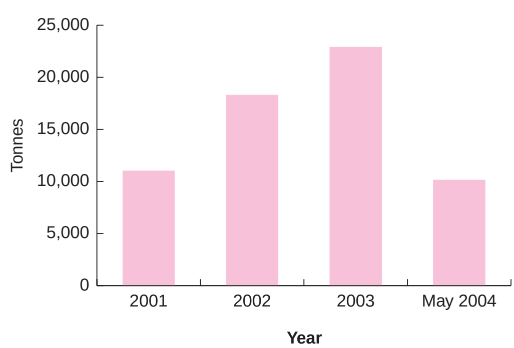
Set out below is a summary of the Group's key financial results during the Track Record Period:

	Year ended 31 December			**Five months ended 31 May**
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	343,833	730,152	1,034,340	497,516
Gross profit	62,505	139,702	155,896	71,856
Profit for the year/period	49,935	106,803	84,838	47,572

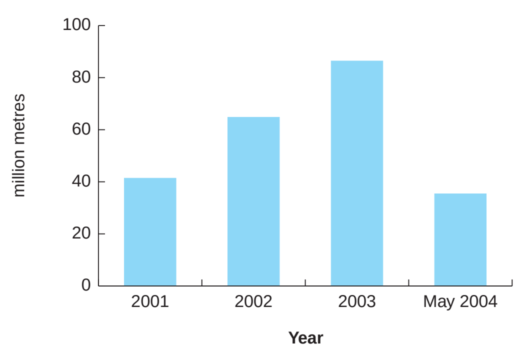
The Group has facilitated its rapid expansion and growth through low cost acquisition and upgrading of production facilities of state-owned enterprises put into liquidation. Since commencement of its business, the Group has expanded its production capabilities by successfully acquiring fixed assets and factory premises of four state-owned enterprises, namely Taizhou No. 2 Weaving Factory, Suining Cotton, Rudong Textile and Feng County Textile, which were put into liquidation. Details of these acquisitions are disclosed in the subsection headed "History and development" under the section headed "Business" of this prospectus. Acquisitions of these assets also enabled the Group to absorb skilled labour on a selective basis from these enterprises who had been made redundant, thus saving the Group tremendous training time. In addition, the Directors consider expansion by means of the abovementioned type of acquisition is more economical as (1) lower capital is required so the rate of return is higher; and (2) shorter time and less management efforts are required to achieve desirable production capacity and accordingly, the management can focus on product and market development. In addition to acquiring assets from enterprises which were put into liquidation, new production facilities and equipment were also added. By a series of acquisitions, the Group has increased its production capacity, as well as enhanced the breadth of its products, to cope with the increasing demand for the Group's products and product development plans.

The Group currently has a textile manufacturing base comprising eight production plants, with a total floor area of about 218,000 sq.m. in Xuzhou, Taizhou and Nantong in Jiangsu Province and Jinhua in Zhejiang Province. As at 31 May 2004, the Group had installed over 179,000 spindles, over 600 air-jet looms and over 650 shutters in its factories. Set out below is the Group's actual production volume during the Track Record Period:

Yarn production volume



Grey fabric production volume



The Group's sales and marketing function is centralised and carried out by the sales and marketing team. The sales and marketing team focuses its effort on the agglomeration of textile enterprises in Zhejiang, Jiangsu, Guangdong and Shandong Provinces which, according to the China Textile Industry Development Report 2003/2004, together accounted for approximately 70.8% of the total PRC textile product sales in 2003. As at the Latest Practicable Date, the Group had over 1,100 PRC customers and over 100 overseas customers.

The Directors believe that continuous and innovative product development is important for the Group to maintain its competitiveness in the textile industry in the PRC. The Group constantly engages in market research to keep abreast of the latest clothing and textile trend. In addition, the Group and its customers frequently work together to jointly develop new yarn and grey fabrics. Apart from its strategic relationship with its customers, the Group also works closely with its suppliers. The Group regularly consults its suppliers on the latest fiber, spandex, and other raw materials development and their applications. Furthermore, the Group jointly develops yarn and grey fabrics from new materials with renowned material suppliers to build up its product inventory. The Directors believe its strategic relationships with its customers and suppliers can provide valuable insights into the textile and clothing industry and the Group gains knowledge of new production techniques through the product development process. Accordingly, the Group is well positioned to identify the upcoming trend in yarn and fabric and react properly to changes in market demand for textile products.

The Directors believe that the Group has established a market position as a manufacturer of high quality textile products, especially in stretch textile products. It is believed that the PRC economy will continue to grow in the next decade, which will in turn create a strong domestic demand for contemporary and high quality garment products. Furthermore, the Directors believe the PRC's entry into the WTO and the cancellation of the quota system on 1 January 2005 provide significant growth opportunities for the Group, in particular in the export market even though the PRC's export of textile products will continue to be subject to certain tariffs. The Directors believe that the Group, as a textile material supplier, is likely to benefit from these developments.

STRENGTHS OF THE GROUP

The Directors consider the principal strengths of the Group are as follows:

Specialising in contemporary and high value-added products and its new product development capacity

The Directors believe that the Group has established a market position as one of the leading manufacturers of high quality textile products, in particular spandex stretch yarn and spandex stretch fabrics, which enjoy higher profit margins than traditional cotton yarn and fabric. The Directors believe, by focusing on product development, manufacturing and sales of new, high quality and high value-added yarn and grey fabrics, the Group will continue to enjoy a rapid business growth and generate a higher financial return than other textile manufacturers supplying traditional textile products.

Capital cost competitive advantage

The Group's management has established a track record of building production facilities with relatively low capital investments through (i) acquisitions of the fixed assets and factory premises of existing textile factories and upgrading of the production facilities by installing new machineries in the acquired factories; (ii) reallocation of selected employees of the Group to manage the new production facilities; and (iii) improving production efficiency and quality of the employees in the acquired factory and improving the production capacity through staff training. The Directors believe that, by adoption of such buy-and-build approach in expanding the Group's production capacity, the Group is able to expand its production capacity rapidly with low capital investments.

Adaptability and operating efficiency

The Directors believe that the Group's production team and sales and marketing team can react efficiently to changing market conditions and customer demand. Accordingly, the Directors believe the Group could effectively adapt product and technical adjustments according to the changes in market and customers' needs. The Group is able to produce sample yarn products in two days and sample grey fabric products in seven days.

Textile manufacturing is a capital intensive industry. The Directors believe that high utilisation rate of the production facilities is essential to reduce the unit cost of the products and allows the Group to remain competitive. The production facilities of the Group operate 24 hours a day with three shifts and on average, the Group is able to operate its production facilities at a utilisation rate of over 89% for both yarn and fabric products for the five months ended 31 May 2004.

The Group purchases its raw materials through its centralised purchasing team, which in turn distributes the raw materials to different plants. The Directors believe that such arrangement could effectively reduce the unit cost of raw materials and the administration cost of the Group.

Consistent high quality products and stringent quality control

The Group has adopted stringent quality control measures in each of its production processes. The Group has obtained several accreditations and quality certificates for its quality control system, details of these certificates are set out in the subsection headed "Quality control" under the section headed "Business" of this prospectus. During the Track Record Period, the Group's yarn products were produced at an Uster Statistics of 25-5% and the Group's grey fabric products were produced under the Four Points System of the United States.

Broad customer base

The Group has developed a broad customer base of over 1,200 customers. The Group has been able to establish and maintain good business relationships with its customers. The Directors believe that the Group will be able to leverage on its broad customer base in launching new products.

Experienced management team and lean and flexible management structure

The Group adopts a lean management structure to ensure that management information can be passed on effectively and in a timely manner and management decisions can be implemented efficiently. The Group's management team has extensive experience in the manufacturing and sale of textile products. They have also demonstrated the ability to open up markets of highly profitable products, improve the quality of the Group's products and expand the sales network of the Group. The senior management of the Group also has extensive experience in acquiring suitable assets from state-owned enterprises which were put into liquidation. The Directors believe that, with the support of its experienced management team, the Group will be able to further enhance its leading position in the contemporary textile material market through scalable expansion of its business operations.

TRADING RECORD

The following is a summary of the combined audited results of the Group for the Track Record Period. The summary has been prepared on the basis that the existing Group structure had been in place throughout the periods under review and should be read in conjunction with the accountants' report on the Group set out in Appendix I to this prospectus.

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover *(Note 1)*	343,833	730,152	1,034,340	400,944	497,516
Cost of sales	(281,328)	(590,450)	(878,444)	(336,813)	(425,660)
Gross profit	62,505	139,702	155,896	64,131	71,856
Other revenue	81	2,181	3,038	1,222	4,960
Selling and distribution expenses	(5,801)	(11,185)	(22,277)	(7,648)	(8,236)
General and administrative expenses	(13,889)	(19,381)	(36,348)	(13,017)	(11,990)
Operating profit	42,896	111,317	100,309	44,688	56,590
Finance costs	(1,242)	(4,976)	(8,890)	(3,419)	(4,894)
Share of profit of an associated company	8,289	572	–	–	–
Profit before taxation	49,943	106,913	91,419	41,269	51,696
Taxation	(8)	(110)	(6,581)	(2,484)	(4,124)
Profit for the year/period	49,935	106,803	84,838	38,785	47,572
Dividends *(Note 2)*	10,108	41,815	42,290	4,140	15,874

Notes:

1. Turnover represents the net sales amount of goods (net of value added tax) sold during the Track Record Period, after allowance for returns and trade discounts, and after elimination of all significant intra-Group transactions.

2. Dividends paid during the Track Record Period were funded by the Group's internally generated resources.

3. No account has been taken of the results of Nantong Shuanghong Textile Co., Ltd.

DIVIDENDS

The Company's PRC subsidiaries have declared and paid dividends of approximately RMB10.1 million, RMB41.8 million, RMB42.3 million and RMB15.9 million for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively. Of the total RMB110 million dividends paid during the Track Record Period, approximately RMB81 million was applied by Hong Kong Tin Hong as capital injection in the Company's subsidiaries, namely Taizhou Century Texhong, Xuzhou Century Texhong, Nantong Century Texhong, Xuzhou Texhong Yinfeng, Nantong Texhong Yinhai, Zhejiang Century Texhong and Zhejiang Texhong, while the remaining balance of approximately RMB29 million was paid to the then shareholders. All of the dividends paid during the Track Record Period were funded from internally generated resources. Subsequent to 31 May 2004, the Group further declared dividends which totalled about RMB178.3 million, of which (i) an aggregate of about RMB60.1 million had been reinvested in Taizhou Century Texhong and Xuzhou Texhong Yinfeng to fulfill their outstanding capital injection requirements in July and August 2004; (ii) about 38.2 million will be reinvested before the end of 2004 as additional capital injection into Jiangsu Century Texhong for the purpose to meet the requirements for the application of the establishment of a PRC investment holding company to improve the efficiency and effectiveness of the Group's centralised sales, purchases and cash flow management functions; and (iii) about RMB80 million has been or will be paid to the then shareholder of which RMB30.0 million has been paid and RMB50.0 million will be paid in two equal installments before the Listing Date and in January 2005. Such dividends will be funded by internally generated cash and not from the proceeds of the Share Offer.

Details about dividends declared subsequent to 31 May 2004 are as follows:

Company declared dividends	*RMB'000*
Texhong Jinhua	597
Zhejiang Texhong	33,869
Taizhou Texhong Weaving	4,674
Jiangsu Century Texhong	71,647
Xuzhou Century Texhong	12,444
Taizhou Century Texhong	29,399
Nantong Century Texhong	25,672
Total	178,302

FUTURE PLANS

The PRC textile industry remains fragmented with no dominant market leader. The Group is recognised as one of the 20 largest cotton textile manufacturers in the PRC in 2003 by the China National Textile Industry Council. The Directors believe that the Group is one of the leading manufacturers of spandex stretch yarn and spandex stretch grey fabrics in the PRC. As a result of the continuing growth in the PRC economy and the improvement in PRC living standard, the Directors are optimistic about the future growth of the domestic demand in high quality textile products.

During the eight months period ended 31 August 2004, the Group has experienced keen demand for its spandex stretch yarn. Accordingly, the Directors are confident that the Group can achieve a remarkable growth in 2004.

Following the access of the PRC into the WTO, the quota system imposed on the PRC will be abolished on 1 January 2005, although exports of certain textile products by PRC manufacturers will still be subject to certain restrictions. The Directors believe that such abolishment of quota system will benefit the PRC textile industry. Besides, application of stretch products to garment products will be further broadened and hence demand for such products will increase. Furthermore, as the Group has successfully developed new textile products with new textile materials, such as Viloft, Lyocell and soybean protein fibre, in co-operation with its suppliers and customers, the Group is well positioned to meet the future demand of the market for these new products.

In anticipation of the growing domestic demand and increasing export potential, the Group will continue to expand its production capacity.

The Directors plan to apply for the establishment of a PRC investment holding company. The Directors believe that such company will facilitate the expansion of the Group's business in the PRC through the establishment of an identity and the financing and acquisition advantages pertaining to a PRC investment holding company.

The Group intends to implement the following strategies for its future development:

Expansion of production capacity

The Group has experience in acquiring and restructuring assets from state-owned enterprises. The Group plans to acquire other textile companies or existing manufacturing facilities in the PRC. The Directors believe there are plenty of acquisition opportunities in the PRC, and the Directors have identified some targets for consideration. The Group has recently in response to an announcement (the "Tender Announcement") made by Nantong Asset Exchange in relation a proposed sale of 100% interest in SOE textile companies in Nantong, made an application to Nantong Asset Exchange for it to consider the Group's eligibility to make a tender and received an invitation to make a tender for the 100% interest in SOE textile companies in Nantong on or before 11 December 2004. If the Group does not make the tender before the deadline imposed by Nantong Asset Exchange, the Group would be considered as having withdrawn the application for the tender. According to the Tender Announcement, such SOE companies produced about 9,000 tonnes of yarn, 26 million metres of grey fabric, 800 tonnes of wool yarn and 800,000 metres of woollen cloth annually. As at the Latest Practicable Date, the Group had received certain information on such company and is currently reviewing such information and assessing this possible acquisition. There is no assurance that the Group will submit a bid and, if a bid is submitted, there is no assurance that the Group's bid will be accepted.

The Directors are of the opinion that such acquisition, if materialised, will not have any material adverse impact on the working capital position of the Group. Should the Group eventually tender a bid for the SOE textile companies and be elected for further negotiation to acquire the SOE textile companies, the Directors will use internally generated funds to finance the acquisition of the SOE textile companies. The Directors are still assessing the suitability of other targets for acquisition and for tendering a bid. The Group may or may not proceed with the acquisition of any targeted company.

The Group also plans to expand through the establishment of new production facilities, particularly yarn spinning mill. To this end, the Group is in the process of identifying a suitable site in Xuzhou for building a production facilities with 100,000 spindles. The Group estimated that the total cost for building such new production plant to be approximately RMB220 million and the construction will be financed by net proceeds from the New Issue and bank borrowings. The Group intends to complete such capacity expansion in 2005. The Group has not yet made any commitment to acquire land or machinery in this respect and there is no guarantee that the establishment of such new production facilities will proceed.

As at the Latest Practicable Date, the Group had not entered into any agreement or memorandum of understanding in respect of its expansion plan.

Strengthen product development capability

To maintain the Group's market position as one of the leading manufacturers of high quality textile materials and to cope with changing customer requirements, the Group will continue to develop new textile products. In cooperation with its suppliers and/or customers, the Group has developed certain new types of yarn using new fibres. The Group aims to expand its product range through the development of new yarn and fabric.

Market expansion

The Group will continue to expand its market in the PRC as well as in overseas market such as European countries, North America, Hong Kong and South Korea. In the past few years, the Group has gradually expanded its sales network outside of Zhejiang Province and Jiangsu Province to Guangdong Province and Shandong Province. The Group has also made progress in other parts of the PRC and the percentage of the Group's sales to areas outside Zhejiang Province and Jiangsu Province had increased from approximately 10.5% in year 2001 to approximately 22.5% for the five months ended 31 May 2004. The Directors believe demand for high quality yarn and fabrics in the PRC outside the Zhejiang and Jiangsu Provinces will increase, therefore the Group will increase its sales effort to promote its products in these areas. Following the cancellation of quota system on 1 January 2005, although there will still be restrictions on the PRC export of textile products, the Directors believe the liberalisation of the textile market will provide an opportunity for the Group to expand its overseas market.

Apart from geographical expansion, the Group will also expand the scope of its target customers. The Group's current customers for its yarn and grey fabrics include fabric weaving mills, printing and dyeing factories, garment manufacturers and trading agents. Going forward, the Group plans to expand its customer base to include domestic and foreign brandname fashion companies and distributors which have begun to source directly from fabric weaving mills to control cost and to capture the latest development in fabrics rather than through agents or garment manufacturers. With the Group's product development capability and expertise in grey fabric production, the Directors believe it is able to serve these types of customers better than garment and apparel manufacturers. The Group currently has a team of 27 staff who are responsible for the sale and marketing of garment fabrics and will continue to put more resources for promotion in this market segment. The Group's market expansion plan will be funded by internally generated cash.

Upgrading of information system

The Group has expanded its scale of the operation significantly in the past few years. To improve its operating efficiency and hence enhances its competitiveness, the Group will install a management information system which improves its information flow and administration in the management, operation and accounting aspects.

USE OF PROCEEDS

The net proceeds from the New Issue, after deducting related expenses, (on the basis that the Over-allotment Option is not exercised) are estimated to be approximately HK$183.3 million (equivalent to approximately RMB194.3 million). The Directors intend to apply the net proceeds from the New Issue as follows:

– as to approximately HK$146.2 million (equivalent to approximately RMB155.0 million) for the expansion of the Group's yarn production operations;

– as to approximately HK$16.8 million (equivalent to approximately RMB17.8 million) for installation of a management information system;

– as to approximately HK$2.0 million (equivalent to approximately RMB2.1 million) for enhancing the Group's product development capability, primarily through the acquisition of new equipment and the hiring of additional product development staff; and

– as to the balance of approximately HK$18.3 million (equivalent to approximately RMB19.4 million) for the general working capital of the Group.

To the extent that the net proceeds from the New Issue are not immediately used for the above purposes, it is the present intention of the Directors to place such proceeds on short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK$36.7 million (equivalent to approximately RMB38.9 million) will be used for the expansion of the Group's yarn production operations.

In the event that there are any material changes or modifications to the use of proceeds, an appropriate announcement will be made by the Company.

PRE-IPO SHARE OPTION SCHEME

By a resolution in writing passed by all the shareholders of the Company on 21 November 2004, the Company adopted the rules of the Pre-IPO Share Option Scheme, a summary of which was set out in the section headed "Other information" in Appendix VII to this prospectus.

As at the Latest Practicable Date, options to subscribe for an aggregate of 4,342,000 Shares were granted by the Company under the Pre-IPO Share Option Scheme. The Directors confirm that, save as disclosed below, no further option has been or will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

Particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme as at the Latest Practicable Date are set out below:

Name of grantees (relations with the Group) *(Note 1)*	**Period during which the options remain exercisable** *(Note 2)*	**Exercise price per Share** *(HK$)*	**Number of underlying Shares under the options** *(Note 2)*	**Approximate percentage of shareholding held upon exercise of all the options** *(Note 3)*
Zhang Chuanmin	three years commencing from and including the date falling six months after the Listing Date	0.69	1,200,000	0.137%
Sha Tao	three years commencing from and including the date falling six months after the Listing Date	0.69	1,158,000	0.132%
Hu Zhiping	three years commencing from and including the date falling six months after the Listing Date	0.69	1,158,000	0.132%
Yin Jianhua	three years commencing from and including the date falling six months after the Listing Date	0.69	826,000	0.094%

Notes:

1. These options are granted to the grantees named above on the basis that each of them is a senior management of the Group, who has contributed and will contribute to the growth and development of the Group and the listing of the Shares on the Main Board. Set out below is the date of joining of the Group by each of the grantees under the Pre-IPO Share Option Scheme and their respective roles with the Group:

   (a) Mr. Zhang Chuanmin joined the Group on 5 August 2001 and is the general manager of the financial management department of the Group. Mr. Zhang Chuanmin is in charge of the financial management and accounting functions of the 12 subsidiaries of the Company.

   (b) Mr. Sha Tao joined the Group on 28 February 1998 and is a vice president of the Group. He is also the managing director of Taizhou Texhong Weaving and Taizhou Century Texhong. Mr. Sha Tao is in charge of the daily operations of Taizhou Texhong Weaving and Taizhou Century Texhong.

   (c) Mr. Hu Zhiping joined the Group on 2 February 1998 and is a vice president of the Group. He is also the general manager of the grey fabrics sales department of the Group. Mr. Hu Zhiping is in charge of the marketing and sales of the Group's grey fabric products.

   (d) Mr. Yin Jianhua joined the Group on 23 August 2002 and is a vice president of the Group. He is also the general manager of the yarn sales department of the Group. Mr. Yin Jianhua is in charge of the marketing and sales of the Group's yarn products.

2. During the first one year and the first two years of the exercise period, each grantee may not exercise his option exceeding one-third and two-thirds respectively of the total number of underlying Shares in respect of the options granted to him.

3. These percentages are calculated on the basis of 876,342,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (as enlarged by the exercise in full of all the options granted under the Pre-IPO Share Option Scheme) but does not take in account any Share which may fall to be allotted and issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme and assuming that all the options granted under the Pre-IPO Share Option Scheme are exercised in full at the same time. On such basis and upon exercise in full of the outstanding options granted under the Pre-IPO Share Option Scheme, the total shareholding of the then existing Shareholders will be diluted by a total of approximately 0.5%.

4. The forecast earnings per Share on pro-forma fully diluted basis is HK13.99 cents which is calculated by dividing the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 by a total of 876,342,000 Shares assuming that the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer had been in issue on 1 January 2004 (but without taking into account any Shares which may be issued under the Over-allotment Option) and the options granted under the Pre-IPO Share Option Scheme were exercised in full on 1 January 2004. It is also assumed that all Shares falling to be issued pursuant to the options granted under the Pre-IPO Share Option Scheme were issued at no consideration. This has not taken into account the proceeds that will be received upon the exercise of the options granted under the Pre-IPO Share Option Scheme and hence has not considered the impact of fair value of the Shares on the computation of number of dilutive potential Shares. The Directors consider it is impracticable to estimate the fair value of the Shares prior to its listing.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2004

Forecast combined profit after taxation
but before extraordinary items
of the Group *(Note 1)* . . . . not less than HK$122.6 million (equivalent to approximately RMB130 million)

Forecast earnings per Share
– weighted average *(Note 2)* . . . . HK17.3 cents
– pro forma *(Note 3)* . . . . HK14.1 cents

SHARE OFFER STATISTICS

Offer Price . . . . HK$1.15

Market capitalisation *(Note 4)* . . . . HK$1,002.8 million

Prospective price/earnings multiple
– weighted average *(Note 5)* 6.65
– pro forma *(Note 6)* 8.16

Pro forma net tangible asset value per Share *(Note 7)* . . . . HK$0.667

Notes:

1. The bases on which the forecast combined profit after taxation but before extraordinary items of the Group has been prepared are set out in Appendix IV to this prospectus. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004.

2. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 and the weighted average number of 708,589,589 Shares expected to be in issue during the year, but takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any option which has been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed “Resolutions in writing of all Shareholders passed on 21 November 2004” in Appendix VII to this prospectus.

3. The calculation of the forecast earnings per Share on a pro forma basis is based on the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 assuming that the Company had been listed since 1 January 2004 and a total of 872,000,000 Shares had been in issue during the year, but takes no account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraph headed “Resolutions in writing of all Shareholders passed on 21 November 2004” in Appendix VII to this prospectus. No account has been taken of any interest which may have been earned if the estimated net proceeds from the issue of the New Shares had been received on 1 January 2004.

4. The calculation of market capitalisation is based on the Offer Price and 872,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue but taking no account of any Shares which have been or may be allotted and issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any option which have been or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. If the Over-allotment Option is exercised in full, the market capitalisation of the Shares at the Offer Price would be approximately HK$1,040.4 million.

5. The prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis of HK17.30 cents for the year ending 31 December 2004 and on the Offer Price and the assumptions set out in note 2 above.

6. The prospective price/earnings multiple on a pro forma basis is based on the forecast earnings per Share on a pro forma basis of HK14.1 cents for the year ending 31 December 2004 and on the Offer Price and the assumptions set out in note 3 above.

7. The pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the section headed "Unaudited pro forma net tangible assets" in Appendix III to this prospectus and on the basis of 872,000,000 Shares in issue as at 31 May 2004 (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Share Offer, but without taking into account any Share which may fall to be issued upon the exercise of the Over-allotment Option or any options which may have been or may be granted under the Pre-IPO Share Option Scheme and Share Option Scheme.

RISK FACTORS

The Board considers that the business and operations of the Group are subject to a number of risk factors which can be broadly categorised into: risks relating to the Group; risks relating to the industry; risks relating to the PRC and risks relating to the Share Offer. Set out below is a summary of the risks referred to above. For details, please refer to the section headed "Risk factors" in this prospectus.

Risks relating to the Group

– Reliance on spandex stretch yarn and fabrics

– Gross profit of the Group's stretch products

– Financing risk

– The Group's leased properties

– Sustainability of growth and low cost expansion

– Acquisitions of assets from dissolved state-owned enterprises

– Late payment of registered capital

– Financial subsidy for the Group's site at Taizhou Economic Development Zone

– Compliance with the PRC applicable labour law and regulations

– Reliance on key management

– Reliance on the PRC market

- Volatility of prices of raw materials
- Seasonal fluctuation
- Product development
- Product liability
- Power shortages
- Breakdown of production lines
- Preferential tax treatment
- Currency conversion and foreign exchange control
- Dividends
- Differences between PRC GAAP and HK GAAP

Risks relating to the industry

- Competition
- Licenses, certificates and permits required in the production and sale of yarn and fabrics in the PRC
- PRC's accession to the WTO
- Another possible outbreak of SARS or other serious contagious diseases
- Environmental liabilities

Risks relating to the PRC

- Economic consideration
- Political and social consideration
- Legal and regulatory considerations

Risks relating to the Share Offer

- Liquidity
- Possible volatility of share price
- Certain statistics from third party publications may not be reliable