RISKS RELATING TO THE GROUP

Reliance on spandex stretch yarn and grey fabrics

The Group's strategy is to remain competitive and create profits through the manufacture and sale of contemporary high value-added textile products. The Directors believe that the Group has established a market position as one of the leading manufacturers for high quality textile products, in particular spandex stretch yarn and spandex stretch grey fabrics. During the Track Record Period, 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. In the event of any change in fashion trend, consumers might have preference for other textile materials in the future and if the Group fails to respond to such change rapidly and effectively, the Group's profitability and performance may be adversely affected.

Gross profit of the Group's spandex stretch products

Spandex stretch yarn and spandex stretch grey fabric are the major contributors to the increasing turnover and gross profit of the Group and together accounted for approximately 74.6% and 79.3% of the Group's turnover and gross profit for the five months ended 31 May 2004 respectively. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, the gross profit margin of the Group's spandex stretch yarn and grey fabrics products are approximately 28.2%, 21.7%, 16.0% and 15.0% respectively. The gross profit margin of spandex stretch yarn and grey fabrics product has been decreasing since the year ended 31 December 2001 which the Directors believe was attributable to increased competition. There can be no assurance that the demand for these products will remain strong and the gross profit margin of the Group's spandex stretch yarn and fabrics products will not continue to decrease. If the gross profit margin of the Group's spandex stretch yarn and fabrics products continue to fall and the Group is unable to commercialise any new products which command a higher gross profit margin, the Group's profitability and financial position may be adversely affected.

Financing risk

The Group had substantial short-term bank borrowings during the Track Record Period which were short term revolving bank loans. As at 31 May 2004, the Group's bank and cash balance was approximately RMB77.9 million and banks loans amounted to approximately RMB253.2 million.

In the event that the banks providing the existing banking facilities do not continue to extend similar or more favourable facilities to the Group and the Group fails to obtain alternative banking facilities, the Group may not have sufficient working capital for its operations. As such, the Group's financial position may be adversely affected.

The Group's leased properties

As at the Latest Practicable Date, the Group had leased five premises in Shanghai, and Nantong, Wuxi and Xuzhou of Jiangsu Province. The Group has been advised by its PRC legal advisers that the landlord of the office premises in Wuxi has not yet obtained the building ownership certificate giving it the lawful right to lease the premises. Although the relevant lease agreement has been registered with the appropriate PRC authority, the PRC legal advisers are unable to confirm the validity of the lease agreement in respect of the premises in Wuxi in light of the landlord's failure to obtain the building ownership certificate.

Regarding the lease of the factory premises in Suining County, it should be noted that although due registration of the principal lease in respect of the building situated in Suining County of Jiangsu Province has been made with the relevant PRC authority, the lease of the land on which the building is situated has not been registered with the land bureau. The lease of the land may be subject to any bona fide third parties' interest. The Directors are of the view that such Suining production facility is not material to the business activities of the Group due to its relatively small scale of operation and insignificant revenue contribution to the Group during the Track Record Period. Further, according to the PRC legal advisers to the Company, the failure to register the lease of the land of the Suining property is unlikely to expose the Group to any third parties' right since the interest of the tenant in the land and building cannot be separated under the relevant PRC laws.

Mr. Hong, Hong Kong Tin Hong and New Green Group Limited, the controlling Shareholders have given certain indemnities in favour of the Group in respect of the above leased properties pursuant to a deed of indemnity referred to in paragraph 16 of Appendix VII to this prospectus.

Sustainability of growth and low cost expansion

For each of the three years ended 31 December 2003, the Group's turnover amounted to approximately RMB343.8 million, RMB730.2 million and RMB1,034.3 million respectively, represented a CAGR of approximately 73.44% over the three-year period. During the same period, net profit of the Group amounted to approximately RMB49.9 million, RMB106.8 million and RMB84.8 million respectively and represented a CAGR of approximately 30.3% over the three-year period. The Directors attribute such increase in turnover and profitability in part to the Group's ability to increase the sales of high value-added products, maintain its product quality, expand its production capacity by acquiring production facilities at considerations less than market prices and its product development capability. However, there is no assurance that demand for the Group's high value-added products will remain high, the prices of these high value-added products will not fall and suitable target textile companies will be available in the future for the Group to acquire and if so exists, the Group will be able to acquire at lower than market price. In the event that these unfavorable conditions exist, the Group may not be able to sustain its historic growth rate.

Acquisitions of assets from dissolved state-owned enterprises

The Group acquired the assets from four state-owned enterprises which went into liquidation. For each acquisition, the Group's acquisition costs for the assets were lower than the then prevailing market value. The Group would also absorb skilled labour on a selective basis from these state-owned enterprises. After each acquisition, the Group would send its experienced management team to control daily operation, introduce new management policy to improve the production efficiency and product quality, to train and incentivise the staff and to decide on new market positioning. Although the Group was able to generate profits in using the production facilities of the four state-owned enterprises which previously went into liquidation, there is no assurance that the Group will continue to do so in the future.

Late payment of registered capital

The registered capital of each of Texhong Textile Taizhou, Taizhou Texhong Weaving, Taizhou Century Texhong, Texhong Suining and Zhejiang Century Texhong was not fully injected by the Group within the required time frames. The PRC legal advisers of the Company have confirmed that there is no quantifiable penalty under PRC law to be imposed on foreign invested companies whose registered capital installments are not contributed according to the required schedule and the relevant regulations. Nonetheless, the State Administration of Industry and Commerce and its authorised local agents ("SAIC") are authorised by law to repeal the business license of a foreign invested company if its foreign investor fails to make its capital contribution within the required time frame. As the registered capitals of these companies have been paid in full and the respective SAIC offices have accepted filing of their capital registration verification reports, and have examined and accepted these companies in annual inspections, the PRC legal advisers of the Company are of the opinion that SAIC offices have in fact pardoned these defaults and they are not likely to repeal the relevant business licenses or impose fines on these subsidiaries. However, there can be no assurance that SAIC will not exercise its power to revoke the business licenses of these companies. Should the business licenses of any of the subsidiaries be repealed, the Group's operation and profitability may be adversely affected.

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

Pursuant to an Assignment of State-owned Land Use Rights ("Land Assignment") dated 20 July 2002 and made between the Land Resources Bureau of Taizhou City and Taizhou Century Texhong, Taizhou Century Texhong obtained the land use right of a piece of land (the "Site") located at Taizhou Economic Development Zone of a total site area of approximately 151,599.4 sq.m. (property numbered 4 in the property valuation report in Appendix V to this prospectus). Under the Land Assignment, the land grant fees payable by Taizhou Century Texhong for the Site were about RMB26,288,852, of which RMB4,400,000 was paid by the Group and the remaining balance of about RMB21,888,852 was settled and cleared by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, as a financial subsidy offered by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province to Taizhou Century Texhong. The

Land Resources Bureau of Taizhou City has confirmed that Taizhou Century Texhong has fulfilled all its obligations under the Land Assignment and the land use right of the Site obtained by Taizhou Century Texhong is legal and valid. The state owned land use right certificate of the Site was granted to Taizhou Century Texhong on 30 July 2004.

The PRC legal advisers to the Company are of the opinion that this form of subsidy is commonly provided by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province and by other regional governments to entities in the localities under their administration. According to the PRC legal advisers to the Company, the financial subsidy offered by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province should be included in its finance budget plan and approved by the local People's Representative Committee. If such approval has not been obtained, the Taizhou Hailing District Government or the People's Representative Committee of a higher hierarchy or the Finance Department or Audit Department of a higher hierarchy may require Taizhou Century Texhong to repay the remaining balance of the land grant fees. Should this occur, the financial position of the Group may be affected.

Compliance with the PRC applicable labour law and regulations

Texhong Textile Taizhou had received a letter (勞動監察限期改正指令書) issued by 泰州市海陵區勞動局 (Labour and Social Security Bureau of Hailong District, Taizhou City), which was in response to complaints lodged by some of its employees alleging that it had breached the applicable labour law and regulations on the ground that the overtime work undertaken by the relevant employees had exceeded the statutory limit. The PRC legal advisers to the Company have advised that Texhong Textile Taizhou may be subject to a fine of RMB100 for every hour of overtime work undertaken by each of Texhong Textile Taizhou's employees that had exceeded the statutory prescribed overtime limit. The Directors estimate that the total potential fine that may be imposed on Texhong Textile Taizhou would not be more than RMB300,000 if the relevant authority decided to take administrative action against Texhong Textile Taizhou.

The Directors advised that the above incidents took place as new machineries were installed by Texhong Textile Taizhou in around March 2004. In order to meet the production requirements of some of its customers' orders at the relevant time, certain workers of Texhong Textile Taizhou had worked over the statutory prescribed overtime limit.

Each of Mr. Hong, Hong Kong Tin Hong and New Green Group Limited has, pursuant to a deed of indemnity more particularly referred to in paragraph 16 of Appendix VII to this prospectus, undertaken to indemnify the Group on a joint and several basis in respect of all claims, damages, losses, costs, expenses, actions and proceedings arising out of such breach of the applicable PRC laws and regulations. The Directors also confirm that they will ensure that similar incidents will not occur in future by recruiting additional part time workforce whenever necessary to meet customers' orders or by transferring all or part of an order to the Group's other production facilities. However, there is no assurance that this will not happen in the future and in the event of any future breach of the applicable PRC labour laws and regulations by the Group and that the relevant authority decides to take administrative action against the Group, the Group's operating results and financial position may be adversely affected.

Reliance on key management

The Group's success is, to a certain extent, attributable to the vision, expertise, experience and managerial skills of its executive Directors and other members of the management team, including Mr. Hong, Mr. Zhu Yongxiang, Mr. Tang Daoping, Mr. Gong Zhao, Mr. Sha Tao, Mr. Hu Zhiping and Mr. Yin Jianhua. The biographies of each of the executive Directors and the senior management of the Group are set out in the section headed "Directors, senior management and staff" in this prospectus. The executive Directors have entered into service agreements with the Group on 21 November 2004 for a term of three years commencing from 21 November 2004. However, there is no assurance that the Group will be able to retain the continuing services of the executive Directors and the members of management team and the operations of the Group may be adversely affected, if for any reason, one or more of the management personnel of the Group cease to be involved in the Group's management.

Reliance on the PRC market

During the Track Record Period, over 90% of the Group's products were sold in the PRC market. Although the Group intends to expand its overseas market, the Directors anticipate the sales of the Group's products in the PRC will continue to represent a significant portion of the Group's total turnover in the near future. Accordingly, the Group is exposed to changes in the economic, political and social conditions in the PRC as well as changes in the domestic demand for the Group's products in the PRC. Such changes may lead to a decrease in price of the Group's products and/or reduction in the demand for the Group's products, all of which would affect the profitability of the Group.

Volatility of prices of raw materials

During the Track Record Period, the average consumption cost per tonne of cotton was approximately RMB9,888, RMB8,404, RMB11,723 and RMB14,971 respectively. Cotton was the major raw material to the Group and accounted for approximately 32.0%, 25.7%, 27.8% and 32.0% of the total cost of materials for the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively. The prices for the cotton may be affected by market demand and supply, domestic government policy and other regulations, climate and economic conditions. The Group has not entered into long term supply agreements with the suppliers. Should there be any significant increase in the price of cotton or other major raw materials, the Group's profitability may be adversely affected.

Seasonal fluctuation

Historically, the Group's sales are subject to seasonality. Sales are generally higher in the fourth quarter while lower during the first quarter. For each of the three years ended 31 December 2003, sales in the first quarter amounted to approximately 16.9%, 17.1% and 21.8% of the Group's turnover while sales in the fourth quarter amounted to approximately 32.5%, 31.0% and 29.9% of the Group's turnover respectively. However, these sales patterns may not be indicative of future sales performance and sales in the final quarter may fluctuate substantially in the future. Should there be any reduction in the demand of the Group's products in the final quarter in any year, the Group's profitability may be adversely affected.

Product development

During the Track Record Period, the Group maintained a fast growth in its business. This was mainly attributed to its manufacture and sales of new and high value-added products. The Group stresses on product development and has established a good platform to develop new products. Although the Directors will continue the Group's commitment to product development, there are no assurances that Group will be able to complete any product development successfully and even if new products can be developed, they may not be able to gain popular market acceptance. If the Group does not successfully complete its product development or that there is no market demand for the new product produced by the Group, the Group's operations and growth may be adversely affected.

Product liability

Sale of defective products (if any) may expose the Group to potential claims from customers although the Group has not experienced any defect or error on its products that has led to any material loss to the Group. However, the Group currently does not maintain any third party liability insurance to cover any claims in respect of defective products sold by it. Should any claims against the Group in respect of any defective products be successful, there might be an adverse impact on the operations, financial conditions and reputation of the Group. The Directors confirmed that there has been no actual or threatened claims or litigations against the Group and the Group has not suffered any material loss arising from any defect of its products since its establishment.

Power shortages

The Group consumes substantial amount of electricity in its manufacturing process. The Group had experienced power shortages in its products facilities in Zhejiang Century Texhong Plant during the Track Record Period. The Group has currently installed two power generators in the Zhejiang Century Texhong Plant to provide backup power in order to reduce the periods of the shortage of power supply. In addition, each of the Jiangsu Century Texhong Plant and the Taizhou Century Texhong Plant has obtained guarantee from the Suining Power Supply Company and 泰州市海陵區經貿局(Taizhou Hailing District Economic and Trade Bureau) respectively for continuous electricity supply despite electricity shortage in the area. However, there can be no assurance that all other production facilities of the Group will always have adequate supply of electricity. Any power shortage for a significant period of time may have adverse effect on the profitability of the Group.

Breakdown of production lines

The textile manufacturing industry is a capital intensive industry, the Directors believe that it is essential for production facilities to maintain a high utilisation rate to reduce the unit cost of the products and remain competitive. The Group's production facilities are in operation 24 hours a day with three shifts. However, there can be no assurance that the production lines will not breakdown due to mechanical malfunction or human error. In such an event, the Group's production may be significantly interrupted until the problem is rectified and the profitability of the Group may be adversely affected.

Preferential tax treatment

Under the relevant PRC laws and regulations, foreign invested enterprise with an operating period of not less than ten years in the fabric manufacturing sector are eligible for exemption of enterprise income tax for two years commencing from the first profit-making year and a 50% tax relief in the three years immediately following thereafter. The current corporate income tax rate applicable to the Group ranged from 24% to 33%. Should there be any unfavourable policy change in relation to any of the abovementioned preferential tax treatments or the tax relief, the Group's profitability may be adversely affected.

Currency conversion and foreign exchange control

For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, approximately 95.9%, 95.1%, 93.0% and 90.4% of the Group's turnover were domestic sales and denominated in Renminbi respectively while the remaining portion of the turnover was export sales denominated in foreign currency. As the Group intends to further develop its overseas market, it is expected that an increasing portion of the Group's turnover will be denominated in foreign currency. The Group's profitability could be adversely affected in the event of any fluctuations in the exchange rate of the currencies in which the Group's sales are settled. During the Track Record Period, the Group did not adopt any hedging policy against fluctuations of the exchange rates from Renminbi to other currencies. Accordingly, the Group is exposed to the risks associated with fluctuations in foreign exchange rates which may adversely affect its profitability.

Dividends

The Group has declared and paid dividends of RMB10,108,000, RMB41,815,000, RMB42,290,000 and RMB15,874,000 for each of the three years ended 31 December 2003 and the five months ended 31 May 2004, respectively to its then existing shareholders, representing approximately 20.2%, 39.2%, 49.8% and 33.4% of the profit attributable to shareholders for the relevant periods respectively. The payment of these dividends was financed by internal resources of the Group.

Whilst the Group intends to make dividend payments in the future, the amount of dividends to be declared will be subject to, among other factors, the discretion of the Directors, the availability of distributable profits, the Group's earnings, financial position and funding requirements and other relevant factors. Historical dividend yield should not be used as a reference or basis for ascertaining the amount of dividends which may be payable in the future.

Differences between PRC GAAP and HK GAAP

The profits of the Group are mainly derived from its subsidiaries established in the PRC. The profits available for distribution for companies established in the PRC are determined in accordance with PRC GAAP, which may differ from the amount arrived at under HK GAAP. In the event that the amount of the profits determined under PRC GAAP in a given year is less than that determined under the HKGAAP, the Company may not have funds to allow profits distribution to its Shareholders.

RISKS RELATING TO THE INDUSTRY

Competition

The Group faces competition from a significant number of companies offering similar spandex stretch yarn and spandex stretch fabrics products and an increasing number of new related products in the PRC which could be used as substitutes for the Group's products. Intensive competitive pressure could have an adverse impact on the demand and pricing of the Group's products, reduce the Group's market share and have an adverse impact on the Group's operations.

Licenses, certificates and permits required in the production and sale of yarn and fabrics in the PRC

Under the PRC laws, enterprises engaging in the production and sale of yarn and fabrics in the PRC are required to obtain appropriate licenses, certificates and permits from relevant PRC governmental administrative authorities.

The Group has obtained all necessary licenses, certificates and permits for the production and sale of the Group's present products, however there is no assurance that the Group will be able to renew such licenses, certificates and permits upon their expiration. In addition, eligibility criteria for these licenses, certificates and permits may change from time to time and additional licenses, certificates and permits may be required and higher compliance standard may have to be observed. In the event of the introduction of any new laws and regulations or changes in the interpretation of any existing law and regulations that may escalate the compliance cost for the Group or prohibit or make it more expensive for the Group to continue with the operation of any part of its business, the Group's operations may have to be restricted and the Group's profitability would be adversely affected.

PRC's accession to the WTO

As a result of PRC's accession to the WTO, it has gradually reduced its import tariff rate for textile products from 2002 to 2005 by an average of approximately 6.4%. The Directors believe that the lowering of import tariffs and other import restrictions of textile products will increase competition from overseas competitors. As such, the profitability of the Group may be adversely affected.

Another possible outbreak of SARS or other serious contagious diseases

The outbreak of Severe Acute Respiratory Syndrome ("SARS") in early 2003 substantially affected businesses in Asia. Currently, the Group is unable to project the potential impact of another possible SARS outbreak or an outbreak of other serious contagious diseases. Should another outbreak of SARS or other serious contagious disease take place, the Group's operations may be adversely affected. In addition, as most of the Group's major customers are based in the PRC, any outbreak of SARS or other serious contagious diseases in the PRC would also have an adverse impact on their operations which may in turn affect the Group's performance.

Environmental liabilities

The Group's production facilities are required to comply with the existing environmental protection laws and regulations in the PRC. Current PRC national and local environmental protection regulations require a payment of fines and even closure of the production facilities once the production facilities are found to have caused serious environmental problems. The Group has not been subject to any fines or penalties concerning environmental pollution in the past. However, there can be no assurance that the PRC Government will not introduce new laws and regulations to impose stricter control on environmental pollution in the future. Changes in the existing environmental protection laws and regulations may require the Group to incur substantial capital expenditure to upgrade its existing environmental protection facilities and the profitability of the Group may be adversely affected.

RISKS RELATING TO THE PRC

Economic consideration

The PRC economy was a planned economy which was subject to annual, five and ten year State Plans. In recent years, the PRC government has introduced economic reforms aimed at transforming the PRC economy from a planned economy into a market economy with socialist characteristics. These economic reforms allow greater utilisation of market forces in the allocation of resources and greater autonomy for enterprises in their operations. However, many rules and regulations implemented by the PRC government are still at an early stage of development and further refinements and amendments are necessary to enable the economic system to be developed into a more sophisticated form. No assurance can be given that any change in economic conditions as a result of the economic reform and macro-economic measures adopted by the PRC government will have a positive effect on the PRC's economic development or the PRC economy. At the same time, there can be no assurance that such measures will be consistent and effectual or that the Group will benefit from or will be able to capitalise on all such reforms.

Political and social consideration

The PRC government has been undergoing a series of reforms since 1978, and is expected to continue to reform the PRC political system. Such reforms have resulted in significant economic growth and social progress. However, further refinements and amendments are necessary to enable the political system to develop into a more sophisticated form. No assurance can be given that the PRC government's reform policy will continue or will continue to be effective or that any adjustment to it will not have a significant impact on the business of the Group.

Legal and other regulatory considerations

The PRC legal system is a civil law system which is based on written statutes and in which decided legal cases have little precedential value. Although since 1979, many laws and regulations governing economic and business practices have been promulgated, the PRC legal system is still considered to be underdeveloped in comparison with the legal systems of some western countries. The interpretation of the PRC law may be inconsistent and somehow influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of existing laws can be uncertain and unpredictable.

Significant progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate governance, foreign investment, commerce, taxation and trade. The promulgation of new laws, changes of existing laws and the abrogation of local regulations laws could have negative impacts on the business and prospects of the Group's business.

RISKS RELATING TO THE SHARE OFFER

Liquidity

Prior to the Share Offer, there has been no public market for the Shares. There can be no assurance that an active trading market for the Shares will develop or be sustained upon completion of the Share Offer. The Offer Price for the Shares will be determined by negotiations between the Company and the Lead Underwriter (on behalf of the Underwriters), and may bear no relationship to the market price for the Shares after the Share Offer.

Possible volatility of share price

Following the Share Offer, the trading price of the Shares may fluctuate substantially in response to, among other factors:

- fluctuations in the Group's interim or annual results of operations
- changes in financial estimates by securities analysts

- announcements of technological innovations by the Group or its competitors
- investor perceptions of the Group and the investment environment in Asia, including Hong Kong and the PRC
- changes in policies related to the cotton textile industry
- developments in the textile industry, in particular, the cotton textile industry
- changes in technologies used and pricing policies adopted by the Group or its competitors
- depth and liquidity of the market for the Shares
- recruitment or departures of key personnel
- general economic and other factors

Moreover, in recent years, stock markets in general, and the shares of companies operating in the PRC in particular, have experienced increasing price and volume fluctuations, some of which have been unrelated or did not correspond to the operating performances of such companies. These broad market and industry fluctuations may adversely affect the market price of the Shares.

Certain statistics from third party publications may not be reliable

Statistical and other information relating to the cotton and cotton textile industry contained in the section headed "Industry overview" in this prospectus has been compiled from various publicly available official sources which are generally believed to be reliable. However, the quality and accuracy of such source materials cannot be guaranteed. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis but the Directors have exercised reasonable care in reproducing the information. None of the Group, the Sponsor, the Underwriters or all other parties involved in the Share Offer have verified the accuracy of the information contained in such sources. The Group, the Sponsor and all other parties involved in the Share Offer make no representation as to the accuracy of this information, which may not be consistent with other information compiled within or outside the PRC and the importing countries of the Group's products. Nonetheless, the Directors and the Sponsor have taken reasonable care in reproducing these facts and statistics in this prospectus from their respective sources.