TRADING RECORD

Summary of audited results of the Group

The audited results of the Group for each of the three years ended 31 December 2003 and the five months ended 31 May 2003 and 31 May 2004, which have been prepared on the basis that the existing Group structure had been in place throughout the Track Record Period, and based on the accountants' report on the Group, the text of which is set out in Appendix I to this prospectus, are summarised below:

	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.

Financial ratios

The following table sets out the Group's profitability ratios and liquidity ratios for each of the three years ended 31 December 2003 and the five months ended 31 May 2003 and 31 May 2004:

	Year ended 31 December			Five months ended 31 May	
	2001	**2002**	**2003**	**2003**	**2004**
Profitability ratios					
Gross margin	18.2%	19.1%	15.1%	16.0%	14.4%
Net profit margin	14.5%	14.6%	8.2%	9.7%	9.6%
Liquidity ratios					
Current ratio	0.7	0.8	1.0	N/A	1.0
Stock turnover days *(Note 1)*	44	50	55	N/A	49
Debtors' turnover days *(Note 2)*	25	41	37	N/A	32
Creditors' turnover days *(Note 3)*	29	38	22	N/A	19
Capital adequacy ratio					
Gearing ratio *(Note 4)*	0.52	0.57	0.54	N/A	0.50

Notes:

1. The number of stock turnover days is equal to inventory at the end of year or period divided by the cost of sales for the corresponding year or period and then multiplied by 365 days or the number of days in the period incurring the cost of sales.

2. The number of debtors' turnover days is equal to trade and bills receivable at the end of year or period divided by the sales for the corresponding year or period and then multiplied by 365 days or the number of days in the period generating the sales.

3. The number of creditors' turnover days is equal to trade and bills payable at the end of year or period divided by the cost of sales for the corresponding year or period and then multiplied by 365 days or the number of days in the period incurring the cost of sales.

4. Gearing ratio is equal to total debts at the end of the year or period divided by total assets at the end of the corresponding year or period.

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 HK GAAP, the Company may not have funds to allow profits distribution to its Shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The following is a discussion of the results of the operations of the Group for the three years ended 31 December 2003 and the five months ended 31 May 2004. The following discussion should be read in conjunction with the financial information and related notes and other financial data in the accountants' report on the Group, the text of which is set forth in Appendix I to this prospectus.

Overview

The Chinese textile industry has undergone changes in the past few years. The number of state-owned enterprises in the textile industry has reduced. The Chinese government's administration in respect of the import and export business in the textile industry is fading out. As China turns to market economy, the competition in the textile industry increases. China's textile industry resolutes to self-regulation and self-reforms. However, the textile industry is currently still fragmented although some larger textile enterprises are building up their market share to strengthen their market position. The Directors believe that there exists a lot of opportunities for the Group to increase its market share and strengthen its market position.

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 restrictions. The Directors believe that the Group, as a textile material supplier, is likely to benefit from these developments.

Brief overview of the major revenues and expenses contributing to the audited financial results of the Group during the Track Record Period

Factors affecting operations of the Group

The Group's results of operations and the period-to-period comparability of the Group's financial results are affected by a number of factors, including material costs, in particular cotton prices, pricing of the Group's products and interest rates. Other variable relate to the overall state of economy of the PRC and the fiscal and other economic policies of the PRC central and local governments including:

- The performance of the textile industry in the PRC and the change in market structure after abolishment of quota system on 1 January 2005;

- The regulatory and fiscal environment of the PRC, including textile industry policy and textile export policy; and

- The political and economic policies of the PRC government in general.

Please refer to the section headed "Risk factors" in this prospectus for a detailed discussion of the above.

Critical accounting policies

Preparation of individual and combined financial statements of the Company and its subsidiaries requires the Group to make estimates and judgements in applying certain critical accounting policies which have significant impact on the combined results of the Group. The Group bases its estimates on historical experience and other assumptions which management believe to be reasonable under the circumstances. Results may differ from these estimates under different assumptions and conditions. Management of the Group has identified below the accounting policies that are most critical to its consolidated financial statements.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in profit and loss account over the remaining weighted average useful lives of those assets of 10 years. Negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Fixed assets and depreciation

The Group's assets comprise five principal types, namely land and buildings, construction-in-progress, machinery and equipment, furniture and fixtures and motor vehicles.

Leasehold land and buildings are stated at fair value which is determined by the directors based on independent valuations which are performed at intervals of not more than three years. The valuations are on an open market basis related to individual properties. In the intervening years, the Directors review the carrying value of the land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations recorded in the fixed assets revaluation reserve in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installation, is stated at cost less accumulated impairment losses, if any.

Other assets, comprising machinery and equipment, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation

Leasehold land is amortised over the lease period. Other assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis, after taking into consideration the estimated residual value of 10% of cost. The principal annual rates are as follows:

Land	2%
Buildings	3%-6%
Machinery and equipment	6%-15%
Furniture and fixtures	9%-18%
Motor vehicles	18%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the assets.

Turnover

The turnover of the Group during the Track Record Period was primarily generated from manufacturing and selling of contemporary textile products. Turnover generated from the Group's businesses experienced a CAGR of approximately 73.44% over the three years ended 31 December 2003. Net profit attributable to shareholders experienced a CAGR of approximately 30.3% over the three years ended 31 December 2003. During the Track Record Period, the Group had produced over 3,000 types of products. The contribution of spandex stretch yarn and spandex stretch grey fabric has increased significantly during the Track Record Period and together accounted for about 74.7% and 74.6% of the Group's turnover for the year ended 31 December 2003 and the five months ended 31 May 2004 respectively. The remaining sales were generated from sale of non-stretch products, garment fabrics and other textile products. The Group increased the percentage of stretch products during the Track Record Period to maximise gross profit as these products generate a higher gross profit per unit. Depending on the specifications of each product and demand in the market, different types of product have different gross profit margins.

Set out below is a breakdown of the Group's turnover by principal products 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*	*%*
Yarn								
Spandex stretch yarn	9,307	2.7	116,863	16.0	273,870	26.5	122,446	24.6
Other yarn	111,314	32.4	119,073	16.3	87,804	8.5	40,623	8.2
	120,621	35.1	235,936	32.3	361,674	35.0	163,069	32.8
Grey fabrics								
Spandex stretch grey fabrics	97,758	28.4	362,600	49.7	498,134	48.2	248,671	50.0
Other grey fabrics	86,078	25.0	62,077	8.5	92,058	8.9	32,278	6.5
	183,836	53.4	424,677	58.2	590,192	57.1	280,949	56.5
Garment fabrics	33,896	9.9	66,369	9.1	79,806	7.7	45,323	9.1
Other textile products	5,480	1.6	3,170	0.4	2,668	0.2	8,175	1.6
Total	343,833	100.0	730,152	100.0	1,034,340	100.0	497,516	100.0

Most of the Group's products were sold domestically in the PRC during the Track Record Period. The Group's customers included fabric traders, fabric mills, printing and dyeing factories and garment manufacturers located in about 16 provinces and municipalities in the PRC. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, domestic sales accounted for approximately 95.9%, 95.1%, 93.0% and 90.4% of the Group's total sales while the remaining represented exports to overseas countries including European countries, North America, Hong Kong and South Korea. Most of the products being exported were garment fabrics.

The Group's turnover is a direct function of the volume of products sold and their respective selling prices. The volume of products sold has increased substantially during the Track Record Period, however unit product prices have fluctuated. The Directors believe the fluctuation of unit product prices was primarily caused by fluctuation in cotton prices, the predominant cost item, and the demand and supply balance for the products.

Set out below is an analysis of the average unit selling price of the Group's yarn, grey fabrics and garment fabrics 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*
Yarn				
Spandex stretch yarn (per tonne)	30,316	20,985	21,924	24,127
Other yarn (per tonne)	14,502	14,247	14,449	18,703
Grey fabrics				
Spandex stretch grey fabrics (per metre)	8.01	8.70	9.02	9.83
Other grey fabrics (per metre)	3.31	2.85	4.02	4.61
Garment fabrics (per metre)	12.11	15.08	13.53	14.62

Set out below is a breakdown of the Group's sales by geographical locations 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*	*%*
Jiangsu	272,325	79.2%	333,822	45.7%	362,672	35.1%	183,304	36.8%
Zhejiang	21,258	6.2%	265,949	36.5%	367,567	35.5%	154,616	31.1%
Guangdong	11,926	3.5%	25,562	3.5%	89,629	8.7%	45,236	9.1%
Shandong	7,920	2.3%	22,603	3.1%	39,895	3.9%	20,208	4.1%
Shanghai	6,385	1.9%	10,319	1.4%	41,476	4.0%	21,186	4.3%
Other provinces	9,785	2.8%	35,934	4.9%	60,325	5.8%	24,973	5.0%
Domestic subtotal	329,599	95.9%	694,189	95.1%	961,564	93.0%	449,523	90.4%
Export	14,234	4.1%	35,963	4.9%	72,776	7.0%	47,993	9.6%
Total	343,833	100.0%	730,152	100.0%	1,034,340	100.0%	497,516	100.0%

Cost of sales

The cost of sales of the Group during the Track Record Period mainly represented costs of raw materials, direct labour, depreciation, utilities, consumables and outsourcing expenses for printing and dyeing. Analysis of the Group's cost of sales during the Track Record Period is as follows:

	For the year ended 31 December			Five months ended 31 May
	2001	**2002**	**2003**	**2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	223,313	457,011	721,664	346,911
Direct labour	23,634	35,742	46,521	19,009
Depreciation	2,251	12,851	17,617	9,015
Utilities	18,354	35,149	48,914	21,203
Consumables	8,220	13,694	9,164	5,872
Outsourcing – printing and dyeing	–	31,638	31,602	14,860
Excess raw materials and by-products	5,107	3,120	2,691	7,939
Others	449	1,245	271	851
Total	281,328	590,450	878,444	425,660

Of all the different components of the costs of sales, the cost of raw materials is the most significant one. The cost of raw materials is one of the principal factors affecting the Group's pricing. Cost of raw materials accounted for approximately 79.4%, 77.4%, 82.2% and 81.5% of the Group's overall cost of sales for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively. During the Track Record Period, yarn, cotton, spandex, rayon and polyester are the raw materials purchased by the Group from independent suppliers. Set out below is the percentage of the major cost components of the Group's products as a percentage of the total cost of raw materials during the Track Record Period:

	Year ended 31 December			Five months ended 31 May
	2001	**2002**	**2003**	**2004**
Yarn	45.2%	57.9%	53.6%	52.2%
Cotton	32.0%	25.7%	27.8%	32.0%
Spandex, rayon and polyester	22.8%	16.4%	18.6%	15.8%

Some of the Group's spandex stretch yarn and non-stretch yarn are used internally in the production of the Group's grey fabrics. For each of the three years ended 31 December 2003 and the five months ended 31 May 2004, about 28%, 22%, 20% and 30% of yarn produced by the Group were used in the production of the Group's grey fabric products respectively.

Apart from yarn and grey fabrics, the Group also sells garment fabrics and other textile products. Garment fabrics are fabrics that have been bleached, dyed and finished. Since the Group does not have printing and dyeing facility and finishing ability, these procedures are outsourced to other printing and dyeing plants. Such outsourcing expenses amounted to approximately Nil, RMB31.6 million, RMB31.6 million and RMB14.9 million respectively for each of the three years ended 31 December 2003 and the five months ended 31 May 2004. Other textile products sold by the Group include excess raw materials and by-products produced during the production process. Cost of these products were included as part of the cost of good sold of the Group during the Track Record Period.

Gross profit and gross profit margin

The Group's actual production volume is bound by its production capacity. In order to maximise the overall gross profit and hence net profit, the Group plans its production to maximise per unit profit. The Group's stretch products generally derive a higher unit gross profit, as such, in order to maximise per unit profit as well as overall gross profit, the Group increased actual production and percentage production of stretch spandex products during the Track Record Period. Fluctuations in the gross profit margin during the Track Record Period mainly resulted from change in each product's unit margin and cost of sales, which mainly reflected changes in raw material costs.

Set out below is an analysis of the gross margin of the Group's yarn, grey fabrics and garment fabrics during the Track Record Period:

	Year ended 31 December			Five months ended 31 May
	2001	**2002**	**2003**	**2004**
Yarn				
Spandex stretch yarn	26.8%	20.4%	13.3%	13.9%
Other yarn	14.3%	12.0%	9.6%	11.4%
Fabrics				
Spandex stretch grey fabrics	28.3%	22.1%	17.5%	15.6%
Other grey fabrics	9.5%	11.8%	9.8%	8.8%
Garment fabrics	18.3%	18.7%	16.5%	16.7%

Other revenue

Other revenue of the Group mainly represented discretionary subsidy income from the government, interest income, rental income from leasing of idle production facilities. The discretionary subsidies were financial subsidies granted by local financial bureaus to encourage investments in specific regions and were granted to the Group on a fully discretionary basis during the Track Record Period.

Distribution expenses

Distribution expenses of the Group mainly comprised freight and loading charges, salary and commission of sales personnel, sales tax, marketing expenses and advertising expenses. Distribution expenses varied directly with the Group's sales and was in a range of approximately 1.5% to 2.2% of the Group's turnover during the Track Record Period. Freight and Loading charges had by far been the most significant component and accounted for about 81.5%, 77.3%, 64.7% and 62.3% of the distribution expenses of the Group for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively.

General and administrative expenses

General and administrative expenses mainly included salary expenses, traveling expenses, office expenses, marketing expenses, contributions to employee benefit scheme, foreign exchange gain or loss and depreciation expenses. As the scale of the Group's operation increased in the past few years, the Group's incurred more general and administrative expenses to support its business during the Track Record Period. Salary (including contributions to employee benefit scheme) had by far been the most significant component and accounted for about 51.0%, 43.9%, 39.4% and 55.3% of the general and administrative expenses of the Group for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively.

Directors' emoluments

Set out below is the breakdown of the emoluments of the Directors for the Track Record Period:

	Year ended 31 December			**For the five months ended 31 May**
Name	**2001**	**2002**	**2003**	**2004**
	RMB	*RMB*	*RMB*	*RMB*
Mr. Hong	48,000	48,000	48,000	20,000
Mr. Zhu Yongxiang	–	50,000	102,000	10,000
Mr. Tang Daoping	24,000	114,000	144,000	10,000
Mr. Gong Zhao	30,000	30,000	30,000	12,500
Total	102,000	242,000	324,000	52,500

Finance costs

The Group's finance costs mainly comprise interest on the borrowings and related fees and charges.

Taxation

(i) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not carry out any business in Hong Kong during the Track Record Period.

(ii) Overseas income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Company 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 of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income tax.

(iii) PRC enterprise income tax ("EIT")

Taxation charged to the combined profit and loss account of the Group during the Track Record Period represented EIT paid or payable by the Company's subsidiaries in the PRC. These subsidiaries, being wholly-owned foreign enterprises established in the PRC are entitled to be exempted from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprise in the PRC. The applicable EIT rate and the first profitable year of each subsidiary of the Company are as follows:

	EIT	**First profitable year**
Texhong Suining	30%	1999
Jiangsu Century Texhong	30%	2001
Xuzhou Century Texhong	30%	2003
Texhong Textile Taizhou	24%	1999
Taizhou Texhong Weaving	24%	2001
Taizhou Century Texhong	24%	2003
Texhong Jinhua	33%	1999
Zhejiang Texhong	33%	2001
Zhejiang Century Texhong	33%	N/A
Nantong Century Texhong	24%	2003
Nantong Texhong Yinhai	24%	N/A
Xuzhou Texhong Yinfeng	30%	N/A

The effective tax rate of the Group was approximately 0.02%, 0.10%, 7.20% and 7.98% for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively. As some of the Company's subsidiaries were entitled to the exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years. Therefore, the effective tax rate fluctuated during the Track Record Period.

(iv) PRC value added tax ("VAT")

The Group's sales of self-manufactured products are subject to VAT. The applicable tax rate for domestic sales is 17%. The Group has obtained approval to use the "exempt, credit, refund" method in settling VAT relating to goods exported, which entitles the Group for a tax refund at the rate of 15% for the three years ended 31 December 2003 and 13% effective from 1 January 2004. Input VAT on purchases can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

The VAT refunds amounted to approximately RMB1.2 million, RMB140,000, RMB1.3 million and RMB1.2 million for each of the three years ended 31 December 2003 and the five months ended 31 May 2004 respectively. All VAT refunds were received in cash.

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 totaled 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 shareholders of the Company's subsidiaries 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

Results of operations

Trading record of the year ended 31 December 2002 as compared to the year ended 31 December 2001

Turnover

The Group's turnover increased approximately 112.4% to approximately RMB730.2 million for the year ended 31 December 2002, as compared to approximately RMB343.8 million for the year ended 31 December 2001. Such significant increase in turnover was mainly due to the keen market demand for spandex textile products. During year 2002, the Group consolidated Zhejiang Texhong, established the Taizhou Century Texhong Plant and the Nantong Century Texhong Plant and also purchased new machineries and equipment. The audited turnover of Zhejiang Texhong for each of the two years ended 2002 were about RMB166.1 million and RMB231.1 million respectively. As a result, the Group's production capacity and production volume increased significantly in 2002 compared to 2001. Aggregate production volume of yarn and fabrics increased by approximately 66.1% and 56.5% respectively. As a result of the increased production volume, the Group was able to meet the increase in demand from its customers for its products, especially for spandex stretch yarn and spandex stretch grey fabrics. Turnover of spandex stretch yarn and spandex stretch grey fabric for the year ended 31 December 2002 increased by about 1155.6% and 270.9% respectively as a result of increased production of and demand for these products. Turnover of garment fabric also increased by about 95.8% as more effort had been devoted to grow the business and as average unit selling price increased following increased sales of higher end products.

Gross profit

The Group recorded a gross profit of approximately RMB139.7 million for the year ended 31 December 2002, representing an increase of approximately 123.5% as compared to approximately RMB62.5 million for the year ended 31 December 2001. About RMB32.8 million of the gross profit recorded in the year ended 31 December 2002 was attributable to Zhejiang Texhong. Gross profit margin for the year ended 31 December 2001 and 2002 were approximately 18.2% and 19.1% respectively. The increase in gross profit margin was mainly due to an increase in the percentage of sales attributable to spandex stretch yarn and spandex stretch grey fabrics which have much higher gross profit margin than other years and other grey fabrics.

Other revenues

Other revenues of the Group increased from RMB81,000 for the year ended 31 December 2001 to approximately RMB2.2 million for the year ended 31 December 2002. The increase was mainly due to a discretionary subsidy of approximately RMB1.5 million granted by the PRC government to the Group in 2002. The Group did not receive such subsidy in 2001. In addition, interest income for the year ended 31 December 2002 also increased to approximately RMB729,000 from approximately RMB81,000 for the year ended 31 December 2001. The Group's cash and bank balances has increased from approximately RMB10.5 million as at 31 December 2001 to approximately RMB20.6 million as at 31 December 2002. As a result, interest income earned from bank deposits increased.

Distribution expenses

Distribution expenses of the Group increased by approximately 92.8% from approximately RMB5.8 million for the year ended 31 December 2001 to approximately RMB11.2 million for the year ended 31 December 2002. Distribution expenses as a percentage of turnover was approximately 1.7% and 1.5% for the year ended 31 December 2001 and 2002 respectively. Distribution expenses varied directly with turnover. The increase in the amount in year 2002 was mainly attributable to the increase of sales tax and freight charges, salary expenses for sales personnel and marketing expenses. All of these expenses increased as a result of increase in sales and marketing activities in year 2002 associated with the growth the business.

General and administrative expenses

General and administrative expenses of the Group increased by approximately 39.5% from approximately RMB13.9 million for the year ended 31 December 2001 to approximately RMB19.4 million for the year ended 31 December 2002. General and administration expenses as a percentage of sales were approximately 4.0% and 2.7% for the year ended 31 December 2001 and 2002 respectively. The increase in general and administration expenses was mainly due to the additional general and administration expenses associated with the establishment of the Taizhou Century Texhong Plant and the Nantong Century Texhong Plant, and the consolidation of Zhejiang Texhong, and increase in expenses associated with the growth of the business.

Finance costs

Finance costs of the Group increased by approximately 300.6% from approximately RMB1.2 million for the year ended 31 December 2001 to approximately RMB5.0 million for the year ended 31 December 2002 mainly due to the increase in bank borrowings. The Group's bank loan balance as at 31 December 2001 and 2002 amounted to approximately RMB38.0 million and RMB156.1 million respectively. In 2002, the Group increased the production capacity by establishing the Taizhou Century Texhong Plant and the Nantong Century Texhong Plant. As a result of the increase in production capacity, working capital requirement of the Group increased. As such bank borrowings were increased to support the increase in the scale of the Group's operation.

Share of profit of an associated company

Zhejiang Texhong was owned as to 46.27% by the Group and was an associated company of the Group. According to the PRC audited financial statements, net profit of Zhejiang Texhong for the year ended 31 December 2001 and 2002 amounted to approximately RMB21.1 million and RMB32.1 million respectively. The amount recorded in the profit and loss account for the year ended 31 December 2001 represented the Group's share of Zhejiang Texhong's profit in year 2001. In February 2002, the Group acquired the remaining 53.73% shareholding interest of Zhejiang Texhong and the profits of Zhejiang Texhong was consolidated with the Group's results since then. Before the acquisition, the share of profit of Zhejiang Texhong was still recorded as share of profit from an associated company, as a result, the amount decreased significantly in year 2002.

Net profit margin

The net profit margin for the year ended 31 December 2001 and 2002 were 14.5% and 14.6% respectively. Although both turnover and gross profit margin have increased in 2002, the Group incurred more finance costs, as a result, the net profit margin remained at the same level as that in 2001.

Trading record of the year ended 31 December 2003 as compared to the year ended 31 December 2002

Turnover

From the year ended 31 December 2002 to the year ended 31 December 2003, turnover of the Group increased approximately 41.7% from approximately RMB730.2 million to approximately RMB1,034.3 million. In year 2003, the Group further increased its production capacity to cope with the increase in demand for the Group's products. Aggregate production volume of yarn and fabrics in year 2003 were approximately 25.2% and 33.3% higher than that in 2002 respectively. The increase in the Group's turnover was principally due to increases in turnover of spandex stretch yarn and spandex stretch grey fabric of about 134.3% and 37.4% respectively as a result of increased production and increased average unit selling prices of these products. Although there was an increase in average unit selling price, the turnover of other yarn decreased by about 26.3% principally due to reduced production as part of the production capacity had been switched to produce spandex stretch yarn. Turnover of other grey fabric increased by about 48.3% as production and sale increased and average unit selling price increased. Despite a drop in average unit selling price, turnover of garment fabrics increased by about 20.3% as this business combined to grow.

Gross profit

For the year ended 31 December 2003, the Group's gross profit increased by approximately 11.6% to approximately RMB155.9 million from approximately RMB139.7 million for the year ended 31 December 2002 as the business continued to grow, but the Group's gross profit margin decreased to approximately 15.1% in year 2003 from approximately 19.1% in year 2002 mainly due to (i) the increase of product prices was lower than the significant increase in raw material costs. For example, consumption cost of cotton, the Group's principal raw material, has increased significantly in 2003. Average consumption cost per tonne of cotton in year 2003 was approximately RMB11,723 per tonne while the average consumption cost per tonne of cotton in 2002 was only approximately RMB8,404. As a result of the increase in cotton price, the overall cost of raw materials increased by approximately 57.9% in 2003 compared to 2002; and (ii) the negative impact on product unit prices during the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in first half of 2003.

Other revenues

Other revenues of the Group increased from approximately RMB2.2 million for the year ended 31 December 2002 to approximately RMB3.0 million for the year ended 31 December 2003. Such increase was mainly due to increase in discretionary subsidy granted by the PRC government from approximately RMB1.5 million in 2002 to approximately RMB2.4 million in 2003.

Distribution expenses

Distribution expenses increased by 99.2% from approximately RMB11.2 million for the year ended 31 December 2002 to approximately RMB22.3 million for the year ended 31 December 2003. Distribution expenses as a percentage of turnover were approximately 1.5% and 2.2% for each of the two years ended 31 December 2003 respectively. The increase in distribution expenses was principally due to (i) increase in expenses associated with the business expansion of the Group and the expansion of the Group's sales and marketing network; and (ii) increase in transportation expenses associated with the increase in business volume and market expansion.

General and administrative expenses

General and administrative expenses of the Group increased by approximately 87.5% from approximately RMB19.4 million for the year ended 31 December 2002 to approximately RMB36.3 million for the year ended 31 December 2003. General and administration expenses as a percentage of turnover were approximately 2.7% and 3.5% for each of the two years ended 31 December 2003 respectively. The increase in general and administration expenses was principally due to (i) increase in salary and welfare associated with the increase in human resources; (ii) increase in other expenses associated with the increase in scale of the Group's operations; and (iii) a foreign exchange loss of about RMB5.3 million (2002: RMB50,000).

Finance costs

Finance costs of the Group increased by approximately 78.7% from approximately RMB5.0 million for the year ended 31 December 2002 to approximately RMB8.9 million for the year ended 31 December 2003. The increase was mainly due to the increase in the use of bank loan financing by the Group to support its daily operation. The Group's bank loan balance as at 31 December 2002 and 2003 amounted to approximately RMB156.1 million and RMB235.9 million respectively. The Group increased its bank borrowings in 2003 to cater for its increased working capital requirement as a result of increased production capacity and increased in cotton prices.

Net profit margin

The Group's net profit margin fell to approximately 8.2% for the year ended 31 December 2003 from approximately 14.6% for the year ended 31 December 2002. The decrease in the net profit margin was mainly due to decrease in gross profit margin, the significant increase in distribution expenses, general and administrative expenses, finance cost and taxation in 2003.

Trading record of the five months ended 31 May 2004 as compared to the corresponding period in 2003

Turnover

The Group recorded an increase in turnover by approximately 24.1% to approximately RMB497.5 million for the five months ended 31 May 2004, as compared to that for the five months ended 31 May 2003. The increase in the Group's turnover was principally due to increase in sale volume of spandex stretch yarn, spandex stretch grey fabrics and garment fabrics and increase in the unit price of the Group's major products to pass through some of the increase in raw material costs to its customers. Moreover, due to the outbreak of SARS in early 2003, the Group's sales during the five months ended 31 May 2003 were adversely affected, as a result, turnover during that period was much lower than for the five months ended 31 May 2004.

Gross profit

The gross profit of the Group was approximately RMB71.9 million for the five months ended 31 May 2004, represented an increase of approximately 12.0% as compared to approximately RMB64.1 million for the five months ended 31 May 2003. However, gross profit margin for the five months ended 31 May 2004 decreased to approximately 14.4% from approximately 16.0% in the corresponding period in 2003 as the increase in average unit selling price of its products did not fully absorb the increase in raw material costs.

Other revenues

The other revenues of the Group for the five months ended 31 May 2003 was approximately RMB1.2 million and for the five months ended 31 May 2004 was approximately RMB5.0 million. This represented an increase of approximately 305.9% in the five months ended 31 May 2004. The increase was mainly due to the increase in discretionary subsidiary income granted by the PRC government approximately RMB1.2 million in the five months ended 31 May 2003 to approximately RMB4.6 million in the five months ended 31 May 2004.

Distribution expenses

The distribution expenses of the Group increased slightly by approximately 7.7% from approximately RMB7.6 million for the five months period ended 31 May 2003 to approximately RMB8.2 million for the five months period ended 31 May 2004. Distribution expenses as a percentage of turnover were approximately 1.9% and 1.7% for the five months ended 31 May 2003 and 2004 respectively. Increase in distribution expenses was mainly due to increase in salary expenses and travelling expenses associated with the increase in business volume and market expansion.

General and administrative expenses

The general and administrative expenses of the Group reduced slightly by approximately 7.9% from RMB13.0 million for the five months period ended 31 May 2003 to approximately RMB12.0 million for the five months period ended 31 May 2004. General and administration expenses as a percentage of turnover was approximately 3.2% and 2.4% for the five months ended 31 May 2003 and 2004 respectively. Decrease in general and administrative expenses was mainly due to net exchange gain of approximately RMB0.9 million (2003: net exchange loss of RMB0.48 million). Accordingly, general and administrative expenses would have experienced a slight increase after discounting the exchange gain/loss in the respective periods, and was associated with the growth in the business.

Finance costs

Finance costs of the Group increased 43.1% from RMB3.4 million for the five months period ended 31 May 2003 to approximately RMB4.9 million for the five months period ended 31 May 2004. The increase in finance costs was due to the increase in bank borrowings. The new bank borrowings were used to meet increased working capital requirement due to increase in cotton price, and finance the instalment payments for the acquisitions of assets from state-owned enterprises put into liquidation and the acquisition of fixed assets.

Net profit margin

There was no material fluctuation in the net profit margin of the Group for the five months ended 31 May 2004 and for the five months ended 31 May 2003.

INDEBTEDNESS

Borrowings

As at 30 September 2004, the Group had outstanding borrowings of approximately RMB274.9 million, comprising short-term bank loans of approximately RMB252.3 million, current portion of long-term payables of approximately RMB5.6 million, non-current portion of long-term payables of RMB9.0 million and amounts due to related parties of approximately RMB8.0 million. All the non-trade debts due to or due from the related parties were settled and that all the trade-related debts due to or due from the related parties will be settled on normal and usual commercial terms. Of the total short-term bank loans, approximately RMB162.4 million was unsecured and the remaining RMB89.9 million was secured.

Collaterals

As at 30 September 2004, secured bank loans of the Group of approximately RMB89.9 million were secured by the following:

(i) pledges of the Group's certain land and buildings and plant and machinery with aggregated net book value of approximately RMB135.1 million; and

(ii) corporate guarantees provided by certain subsidiaries of the Group amounting to approximately RMB156.4 million.

Contingent liabilities

As at 30 September 2004, the Group had contingent liabilities of approximately RMB21.9 million. Such amount represented government grants obtained from the Management Committee Economic of Taizhou Development Zone in connection with the Group's purchase of a piece of land in Taizhou, Jiangsu Province .

Disclaimer

Save as disclosed in this sub-section headed "Indebtedness", at the close of business on 30 September 2004, the Group did not have any outstanding mortgages, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

Save as disclosed in this sub-section headed "Indebtedness", the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 30 September 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Historically, the Group has been able to finance its working capital needs and expansion from cash flow from operations and bank loans. During the Track Record Period, the Group's strategy was to finance its working capital needs principally by cash flow from operations and to finance its expansion by a combination of internally generated cash and bank borrowings. Although all of the Group's bank borrowings are of short term loans, they are revolving in nature.

The Directors expect to finance the Group's expansion in the foreseeable future by funds raised through the issuance of equity securities, bank borrowings, internally generated cash or a combination of them.

As at 31 May 2004, the Group had credit facilities of approximately RMB80,700,000, of which approximately RMB46,500,000 had been utilised.

The Group's net borrowings as at 31 May 2004 were as follows:

	As at 31 May 2004
	RMB'000
Short-term bank loans	
– secured	78,900
– unsecured	174,284
Total	253,184

The Group's bank loans as at 31 May 2004 borne interest at the rates ranging from 1.69% to 5.84% per annum.

The following table summarises the Group's cash flow data during the Track Record Period:

	For the year ended 31 December			**For the five months ended**
	2001	**2002**	**2003**	**31 May 2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash inflow from operating activities	60,981	42,848	5,550	80,426
Net cash outflow from investing activities	66,410	156,373	23,600	46,550
Net cash inflow from financing activities	639	123,590	35,517	5,986
Cash and cash equivalents at the end of year/period	10,545	20,610	38,077	77,939

Operating activities

Net cash inflow generated from operating activities amounted to approximately RMB61.0 million and RMB42.8 million for each of the two years ended 31 December 2001 and 2002 respectively. The decrease in net cash inflow from operations in year 2002 was mainly due to the increase in the scale of the Group's operations. During the year 2002, the Group acquired the remaining 53.73% of equity interest in its 46.27% owned Zhejiang Texhong, established Taizhou Century Texhong, Zhejiang Century Texhong and Nantong Century Texhong. Such expansion led to a substantial increase in the working capital requirement of the Group, the Group's trade receivables increased significantly in associate with the growth in turnover. As production increased, more raw materials were required to meet the production schedule, as a result, both inventories and deposits paid for raw material procurements increased significantly. Although trade payable also increased, its extent was not as significant as the increase in trade receivables, inventories and deposits. Due to the above reasons, the Group's net cash inflow generated from operating activities decrease in 2002 compared to 2001.

For the year ended 31 December 2003, the Group had net cash inflow from operating activities of approximately RMB5.6 million. The significant decrease in net cash inflow from operating activities in 2003 as compared to 2002 was mainly due to the substantial increase in the working capital as a result of increase in cotton price in 2003. The increase in trade and bills payable was significantly in 2002 while that balance decreased in 2003.

For the five months ended 31 May 2004, the Group recorded a net cash inflow of approximately RMB80.4 million from its operating activities. The improvement in cashflow from the operating activities was mainly attributable to (i) management's effort in inventory control; and (ii) the cotton price stop its rising trend in March 2004 and hence the deposits required by suppliers for cotton purchase decreased accordingly.

Investing activities

Net cash outflow from investing activities amounted to approximately RMB66.4 million and RMB156.4 million for each of the two years ended 31 December 2002 respectively. The increase in cash outflow from investing activities in 2002 was mainly due to the Group's acquisitions of the equity interest of Zhejiang Texhong, establishment of Taizhou Century Texhong and Zhejiang Century Texhong and acquisitions of assets from Rudong Textile during the year.

Net cash outflow from investing activities amounted to approximately RMB23.6 million for the year ended 31 December 2003. The Group did not have any significant acquisitions in 2003, therefore the cash outflow from investing activities decreased significantly.

Financing activities

Net cash inflow from financing activities amounted to approximately RMB0.6 million and RMB123.6 million for each of the two years ended 31 December 2002 respectively. In 2002, the Group obtained RMB118 million new bank borrowings to finance its acquisitions and expansion. As a result, cash inflow from financing activities increased significantly.

Net cash inflow from financing activities amounted to approximately RMB35.5 million for each of the year ended 31 December 2003. The amount dropped significantly compared to 2002 mainly because the net bank borrowings in 2003 was less than the amount in 2002.

Net current assets/liabilities

As at 30 September 2004, based on the unaudited combined balance sheet, the Group had net current assets of approximately RMB27.8 million. Current assets mainly comprised cash and bank balances of approximately RMB67.2 million, inventories of approximately RMB167.3 million, trade and bills receivable of approximately RMB120.7 million, prepayments, deposits and other receivables of approximately RMB47.7 million and due from related parties of approximately RMB18.8 million. Current liabilities mainly comprised trade and bills payable of approximately RMB83.0 million, accruals and other payables of approximately RMB36.4 million, short-term bank loans of approximately RMB252.3 million, due to related parties of approximately RMB8.0 million, current portion of long-term payables of approximately RMB5.6 million and taxation payable of approximately RMB8.6 million. All of the non-trade nature balances with related parties have been settled before the Listing Date.

As at 31 December 2001 and 2002, the Group's net current liabilities amounted to approximately RMB34.0 million and RMB53.6 million respectively. The Group's working capital improved significantly as at 31 December 2003 and 31 May 2004. Net current assets of the Group amounted to approximately RMB3.0 million and RMB1.9 million as at 31 December 2003 and 31 May 2004 respectively. The Group's net current liabilities increased as at 31 December 2002 as compared to 31 December 2001 mainly because the Group borrowed approximately RMB118 million new short-term bank loans to finance the increased working capital requirement as a result of the construction of the Taizhou Century Texhong Plant and the establishment of the Nantong Century Texhong Plant. As a result, the Group's current liabilities increased significantly.

The Group returned to a net current asset position in year 2003 as the Group's current assets increased significantly in 2003 mainly because the two production plants established in 2002 began to operate at a higher capacity and generate revenue and cash flow for the Group.

Stock turnover days

The stock turnover days of the Group for the year ended 31 December 2001, 2002 and 2003 and for the five months ended 31 May 2004 were approximately 44 days, 50 days, 55 days and 49 days respectively. Increase in stock turnover days during the Track Record Period was mainly due to increase in the scale of the Group's operations.

In year 2003, as price of cotton increased significantly, the Group stocked a larger amount of cotton during the year in anticipation of an increase in price in the future. Due to these reasons, stock turnover days for the year ended 31 December 2003 increased compared to that for the year ended 31 December 2002.

The Group does not have any policy or basis for providing general provision for inventory. Specific provision is provided for obsolete items. During the Track Record Period, provision for slow moving inventories amounted to approximately RMB215,000, RMB545,000, nil and nil respectively.

Debtors' turnover days

The debtors' turnover days of the Group for the year ended 31 December 2001, 2002 and 2003 and for the five months ended 31 May 2004 were approximately 25 days, 41 days, 37 days and 32 days respectively. The Group offers credit terms for domestic customers of not more than 90 days.

As at 31 May 2004

	Trade and bills receivable	Provision for bad debts	Net trade and bills receivable	Subsequent settlement up to 31 August 2004	Remaining balance
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
0-30 days	77,793	–	77,793	75,950	1,843
31-90 days	17,835	–	17,835	17,260	575
91-180 days	6,477	–	6,477	4,891	1,586
181 days to 1 year	3,303	(60)	3,243	520	2,723
Over 1 year	1,320	(1,020)	300	550	(250)
Total	106,728	(1,080)	105,648	99,171	6,477

Creditors' turnover days

The creditors' turnover days of the Group for the year ended 31 December 2001, 2002 and 2003 and for the five months ended 31 May 2004 were approximately 29 days, 38 days, 22 days and 19 days respectively.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Property interests held by the Group in the PRC

As at 30 September 2004, the Group held and occupied industrial complexes upon plots of land located in Xuzhou, Taizhou and Nantong City of Jiangsu Province and Jinhua City in Zhejiang Province in the PRC, particulars of which are set out in Appendix V to this prospectus.

Owned properties

As at 30 September 2004, the Group owned a total of six properties in Jiangsu Province and Zhejiang Province of the PRC of which two properties with a total gross floor area of about 98,052.53 sq.m. were located in Xuzhou City, Jiangsu Province; two properties with a total gross floor area of about 53,869.41 sq.m. were located in Taizhou City, Jiangsu Province; a property with a gross floor area of about 31,403.45 sq.m. was located in Nantong, Jiangsu Province and a property with a gross floor area of about 14,086.60 sq.m. was located in Jinhua City, Zhejiang Province. These properties are held by the Group for its own occupation and use as workshops, warehouses, ancillary offices, dormitories and other ancillary uses.

Leased properties

As at 30 September 2004, the Group leased a total of six properties from independent third parties with a total gross floor area of about 21,816.62 sq.m. in Xuzhou, Nantong, Wuxi of Jiangsu Province, Shanghai and Hong Kong. The leased properties are occupied and used by the Group as production facilities, entrance of a production plant and offices.

Of the six properties leased by the Group as at 30 September 2004, one property was located in Hong Kong and the remaining five properties were located in the PRC. Two of the five PRC leased properties were used as production facilities of the Group. For the production facility located in Suining County, Jiangsu Province operated by Xuzhou Century Texhong, which was established in January 2003, due to the relatively small scale of operation and insignificant revenue contribution during the Track Record Period, the Directors of the opinion that this production facility is not material to the business activities of the Group. For the production facility located in Nantong City, Jiangsu Province operated by Nantong Texhong Yinhai, it is only responsible for part of the yarn production process, namely yarn doubling, and a portion of its products were used as raw materials in the Group's other production facilities during the Track Record Period. Nantong Texhong Yinhai was established in May 2004 and its operations commenced in June 2004. The Directors do not expect significant revenue contribution by this production facility as it is only equipped to carry out the yarn doubling process. The product produced by this facility, namely yarn be a common product and can be easily purchased in the market. For both production facilities, the Directors believe similar properties with appropriate facilities and conditions are easily available in the areas where the Group operates. Should relocation be required, the Directors consider the relocation cost would not be material as most of the cost would be moving expenses. In addition, although these production facilities would be temporary suspended as a result of relocation, the Group can reallocate sales orders to other production facilities. Based on the revenue and expected revenue contributions by these production facilities, the Directors estimate that the loss of revenue would not be material. Accordingly, the Directors believe relocation of these production facilities would not cause significant disruptions to the Group's operations.

Another one of the properties leased by the Group in the PRC was merely used as the main entrance of the Nantong Century Texhong Plant. Due to the nature of its usage, the Directors consider that this property is not crucial to the Group's operations and the termination of this lease would not cause any significant disruption to the Group's operations as it is not part of the production area of the facility and could always be relocated.

The remaining two properties leased by the Group in the PRC were used as offices. As these offices are used for administrative purpose and are not directly involved in the actual production and sales activities of the Group, the Directors consider these properties are not crucial to the Group's operations. The Directors believe similar properties with appropriate facilities and conditions are easily available in the areas where the Group operates. Should relocation is required, there should not be any disruption to the Group's operations and should not cause any loss of income.

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

Property valuation

DTZ Debenham Tie Leung Limited, an independent property valuer, has valued the Group's property interests as at 30 September 2004 at about RMB209,540,000. The texts of its letter, summary of valuations and the valuation certificates are set out in Appendix V to this prospectus.

PROFIT FORECAST, DIVIDEND POLICY AND WORKING CAPITAL

Profit forecast

The Directors forecast that, in the absence of unforeseen circumstances and on the bases set out in Appendix IV to this prospectus, the forecast combined profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 will not be less than RMB130.0 million (equivalent to approximately HK$122.6 million). The forecast of the combined profit after taxation but before extraordinary items of the Group for the year ending 31 December 2004 prepared by the Directors is based on the audited combined results of the Group for the five months ended 31 May 2004, the unaudited management accounts of the Group for the four months ended 30 September 2004 and a forecast of the combined results of the Group for the remaining three months ending 31 December 2004 on the basis that the current Group structure had been in existence throughout the entire year ending 31 December 2004. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2004. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the accountants' report on the Group, the text of which is set out in Appendix I to this prospectus.

On the basis of the above profit forecast and on the assumption that an weighted average number of 708,589,589 Shares were in issue during the year ending 31 December 2004 (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option, the options granted or which may be granted under the Pre-IPO Share Option Scheme and the Scheme Option Scheme), the forecast earnings per Share on a weighted average basis will be RMB18.3 cents (equivalent to approximately HK17.3 cents) for the year ending 31 December 2004. On the basis of the above profit forecast and on the assumption that a total number of 872,000,000 Shares were in issue throughout the year ending 31 December 2004 (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and the options granted or which may be granted under the Pre-IPO Option Scheme and the Share Option Scheme), the forecast earnings per Share on a pro forma for the year ending 31 December 2004 will be RMB14.9 cents (equivalent to approximately HK14.1 cents).

The text of the letters from PricewaterhouseCoopers, the reporting accountants of the Company, and from Goldbond Capital (Asia) Limited in connection with the Group's profit forecast are set out in Appendix IV to this prospectus.

Dividend policy

Declaration of dividends will be subject to the discretion of the Directors, depending on the Group's results, working capital, cash positions and capital requirements. Under the applicable PRC law, each of the Company's subsidiaries in the PRC may only distribute its after-tax profits after it has made allocations or allowances for (i) recovery of accumulated losses; (ii) allocations to the statutory common reserve fund; (iii) allocation to the statutory welfare fund; and (iv) allocation to a discretionary common reserve fund as may be approved by the shareholders of the company.

Subject to the availability of the Company's cash and distributable reserves, the Group's investment requirements, and the cashflow and working capital requirements of the Group, it is the Directors' current intention to recommend annually the distribution to shareholders of the Company of not less than 30% of the Group's annual net profits as dividends in the foreseeable future. The Directors confirm that they have no intention to declare dividends for the year ending 31 December 2004 following the listing of the Shares.

Working capital

The Directors are of the opinion that, taking into account its internally generated funds, its current available banking facilities and the estimated net proceeds from the New Issue, the Group has sufficient working capital for its requirements in the next 12 months commencing from the date of this prospectus.

CAPITAL COMMITMENT

As at 30 September 2004, the Group had capital commitments of approximately RMB3.0 million in respect of the purchase of the plant and machinery for the Group.

DISTRIBUTABLE RESERVES

The Company was incorporated in the Cayman Islands on 12 July 2004. There were no reserves available for distribution to the Shareholders as at 31 May 2004.

PRO FORMA NET TANGIBLE ASSETS

The following statement of unaudited pro forma net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31 May 2004 included in Appendix I to this prospectus, and adjusted as follows:

	Audited combined net tangible assets of the Group as at 31 May 2004	Estimated Net proceeds from the Share Offer	Unaudited pro forma net tangible assets	Unaudited pro forma net tangible assets per Share	Unaudited pro forma net tangible assets per Share
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
		(Note 1)		*(Note 2)*	
Based on an Offer Price of HK$1.15 per Share	422,337	194,279	616,616	0.707	0.667

Notes:

1. The estimated net proceeds from the New Issue are based on the Offer Price of HK$1.15 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may fall to be issued upon the exercise of Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Option Scheme and/or the Share Option Scheme. If the Over-allotment Option is exercised in full, the unaudited pro forma net tangible asset value per Share will be increased and the unaudited pro forma forecast earnings per Share will be diluted correspondingly.

2. The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraph and on the basis that a total of 872,000,000 Shares were in issue as at 31 May 2004 (including Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Capitalisation Issue and the Share Offer but without taking account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Option Scheme and/or the Share Option Scheme).

3. As at 30 September 2004, the Group's land and buildings were revalued by DTZ Debenham Tie Leung Limited, the valuation report of which was set out in Appendix V to this prospectus. Pursuant to the valuation performed by DTZ Debenham Tie Leung Limited, the Group's interest in land and buildings as at 30 September 2004 amounted to RMB209,540,000. It resulted in an additional revaluation surplus, net of applicable deferred tax liabilities, of approximately RMB3,100,000. Such revaluation surplus will not be included in the Group's combined accounts for the year ending 31 December 2004. If such additional revaluation surplus was included in the Group's combined accounts for the year ending 31 December 2004, an additional depreciation charge of approximately RMB52,000 per annum would be incurred.

PRC STATUTORY RESERVES

According to "The Implementation Rules of the Law of the PRC on Wholly Foreign Owned Enterprise" (《中華人民共和國外資企業法實施細則》), a wholly foreign owned enterprise is required to allocate not less than 10% of its after-tax profit after taxation for each financial year to its reserve fund (儲備基金) until the total amount of its cumulative reserve fund reaches 50% of the registered capital of that wholly foreign owned enterprise. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

The Company's PRC subsidiaries are required to allocate at least 10% of its net profit as reported in their statutory accounts ("statutory profit" prepared in accordance with the applicable accounting principles and relevant regulations in the PRC) to the reserve fund before dividend distribution, until the total amount of the cumulative reserve fund has reached 50% of its registered capital.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31 May 2004, the date to which the latest audited financial statements of the Group was made up.