

The following is the text of a report, prepared for the purpose of incorporation in the prospectus, received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



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PricewaterhouseCoopers
22/F, Prince's Building
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30 November 2004

The Directors
Texhong Textile Group Limited
Goldbond Capital (Asia) Limited

Dear Sirs,

We set out below our report on the financial information relating to Texhong Textile Group Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as "the Group") for the years ended 31 December 2001, 2002 and 2003 and the five months ended 31 May 2003 and 2004 ("the Relevant Periods"), for inclusion in the prospectus of the Company dated 30 November 2004 ("the Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. In November 2004, the Company acquired the entire issued capital of Texhong Textile Holdings Limited, a company incorporated in the British Virgin Islands, through share exchanges ("the Reorganisation") and consequently became the holding company of the subsidiaries now comprising the Group, details of which are set out in Section I – Note 1 below.

No audited accounts have been prepared for the Company, Texhong Textile Holdings Limited, Xuzhou Texhong Yinfeng Textile Co., Ltd. and Nantong Texhong Yinhai Industrial Co., Ltd. since their respective dates of incorporation/establishment as they were newly incorporated/established and have not been involved in any business transactions since incorporation/establishment other than the Reorganisation. We have, however, reviewed all significant transactions of these companies for the period since their respective dates of incorporation/establishment to the date of this report.

The following accounts, which were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in Mainland China, were audited by certified public accountants registered in Mainland China other than PricewaterhouseCoopers, as described below:

Name of subsidiary	Financial years/periods	Name of auditors
Texhong Textile (Taizhou) Co., Ltd.	Year ended 31 December 2001, 2002 and 2003	Taizhou XingRui Certified Public Accountants
Texhong Textile (Jinhua) Co., Ltd.	Year ended 31 December 2001, 2002 and 2003	Pujiang Puxin Certified Public Accountants
Texhong Textile (Suining) Co., Ltd.	Year ended 31 December 2001, 2002 and 2003	Suining Renhe Certified Public Accountants
Taizhou Texhong Weaving Co., Ltd.	Year ended 31 December 2001, 2002 and 2003	Taizhou XingRui Certified Public Accountants
Zhejiang Texhong Textile Co., Ltd.	Year ended 31 December 2001, 2002 and 2003	Pujiang Puxin Certified Public Accountants
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)	Year ended 31 December 2001, 2002 and 2003	Suining Renhe Certified Public Accountants
Taizhou Century Texhong Textile Co., Ltd.	Period from 23 April 2002 (date of establishment) to 31 December 2002 and year ended 31 December 2003	Taizhou XingRui Certified Public Accountants
Zhejiang Century Texhong Textile Co., Ltd.	Period from 10 May 2002 (date of establishment) to 31 December 2002 and year ended 31 December 2003	Pujiang Puxin Certified Public Accountants
Nantong Century Texhong Textile Co., Ltd.	Period from 7 June 2002 (date of establishment) to 31 December 2002 and year ended 31 December 2003	Rudong XinRui Certified Public Accountants
Xuzhou Century Texhong Textile Co., Ltd.	Period from 13 January 2003 (date of establishment) to 31 December 2003	Suining Renhe Certified Public Accountants

For the purpose of this report, the Directors of the Company have prepared combined accounts of the Group for the Relevant Periods with the accounting policies in accordance with accounting principles generally accepted in Hong Kong ("the HK GAAP Combined Accounts"). We have audited, in accordance with Statement of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the HK GAAP Combined Accounts of the Group for the Relevant Periods.

We have examined the audited accounts or, where appropriate, the unaudited management accounts of all the companies now comprising the Group for the Relevant Periods or from their respective dates of incorporation/establishment where this is a shorter period, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA. The Directors of the respective group companies, during the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The financial information as set out in Sections I and II below ("the Financial Information") has been prepared based on the HK GAAP Combined Accounts of the Group, on the basis set out in Section I – Note 1 below. The directors of the Company are responsible for preparing the HK GAAP Combined Accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are also responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in Section I – Note 1 below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2001, 2002 and 2003 and 31 May 2004, and of the combined results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION ABOUT THE GROUP

The following is the combined accounts of the Group as at 31 December 2001, 2002 and 2003 and 31 May 2004 and for the years ended 31 December 2001, 2002 and 2003 and the five months ended 31 May 2003 and 2004, prepared on the basis set out in Note 1 below:

Combined profit and loss accounts

		Year ended 31 December			Five months ended 31 May	
		2001	2002	2003	2003	2004
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	3	343,833	730,152	1,034,340	400,944	497,516
Cost of sales		<u>(281,328)</u>	<u>(590,450)</u>	<u>(878,444)</u>	<u>(336,813)</u>	<u>(425,660)</u>
Gross profit		62,505	139,702	155,896	64,131	71,856
Other revenue	3	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		<u>(13,889)</u>	<u>(19,381)</u>	<u>(36,348)</u>	<u>(13,017)</u>	<u>(11,990)</u>
Operating profit	4	42,896	111,317	100,309	44,688	56,590
Finance costs	5	(1,242)	(4,976)	(8,890)	(3,419)	(4,894)
Share of profit of an associated company		<u>8,289</u>	<u>572</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before taxation		49,943	106,913	91,419	41,269	51,696
Taxation	6	<u>(8)</u>	<u>(110)</u>	<u>(6,581)</u>	<u>(2,484)</u>	<u>(4,124)</u>
Profit for the year/period		<u>49,935</u>	<u>106,803</u>	<u>84,838</u>	<u>38,785</u>	<u>47,572</u>
Dividends	9	<u>10,108</u>	<u>41,815</u>	<u>42,290</u>	<u>4,140</u>	<u>15,874</u>

Combined balance sheets

		As at 31 December			As at
		2001	2002	2003	31 May
	Note	RMB'000	RMB'000	RMB'000	2004
					RMB'000
Non-current assets					
Negative goodwill	12	–	(11,536)	(10,278)	(9,753)
Fixed assets	13	119,808	297,997	298,440	458,098
Investment in an associated company	14	22,593	–	–	–
Total non-current assets		142,401	286,461	288,162	448,345
Current assets					
Inventories	15	34,014	81,852	132,143	137,098
Trade and bills receivables	16	23,923	82,718	104,290	105,648
Prepayments, deposits and other receivables	17	6,695	42,849	64,022	36,534
Due from related parties	30(c)	656	8,422	6,702	14,870
Bank and cash balances	18	10,545	20,610	38,077	77,939
Total current assets		75,833	236,451	345,234	372,089
Current liabilities					
Trade and bills payable	19	22,124	61,137	52,815	54,354
Accruals and other payables	20	17,973	29,909	26,097	25,795
Bank loans	21	38,000	156,059	235,858	253,184
Due to related parties	30(c)	14,333	22,951	11,447	10,258
Current portion of long-term payables	22	17,440	20,004	13,767	23,946
Income taxation payable		–	36	2,299	2,687
Total current liabilities		109,870	290,096	342,283	370,224
Net current (liabilities)/assets		(34,037)	(53,645)	2,951	1,865
Total assets less current liabilities		108,364	232,816	291,113	450,210
Non-current liabilities					
Long-term payables	22	3,448	7,376	205	9,000
Deferred tax liabilities	23	–	–	–	28,626
Total non-current liabilities		3,448	7,376	205	37,626
Net assets		104,916	225,440	290,908	412,584
Financed by:					
Share capital	24	52,794	108,330	131,250	137,999
Reserves	25	52,122	117,110	159,658	274,585
Equity		104,916	225,440	290,908	412,584

Combined cash flow statements

	Note	Year ended 31 December			Five months ended 31 May	
		2001 RMB'000	2002 RMB'000	2003 RMB'000	2003 RMB'000	2004 RMB'000
Operating activities						
Net cash generated from operations	26(a)	63,154	47,080	18,267	29,341	88,823
Interest received		81	729	227	34	69
Interest paid		(2,151)	(4,982)	(8,626)	(3,337)	(4,730)
Taxation refunded/(paid)		(103)	21	(4,318)	(1,354)	(3,736)
Net cash inflow from operating activities		<u>60,981</u>	<u>42,848</u>	<u>5,550</u>	<u>24,684</u>	<u>80,426</u>
Investing activities						
Purchase of a subsidiary	26(c)	–	(22,565)	–	–	–
Purchase of fixed assets		(56,642)	(127,265)	(26,410)	(13,484)	(45,577)
Proceeds from sale of fixed assets		134	1,223	1,090	40	195
New loans to related parties		(656)	(8,332)	(1,612)	–	(1,652)
Repayment of loans to related parties		–	566	3,332	–	484
Capital injection into an associated company		(9,246)	–	–	–	–
Net cash outflow from investing activities		<u>(66,410)</u>	<u>(156,373)</u>	<u>(23,600)</u>	<u>(13,444)</u>	<u>(46,550)</u>
Net cash (outflow)/inflow before financing		<u>(5,429)</u>	<u>(113,525)</u>	<u>(18,050)</u>	<u>11,240</u>	<u>33,876</u>
Financing activities	26(b)					
Capital injections into subsidiaries		23,745	55,536	22,920	4,140	6,749
Dividends paid		(22,298)	(50,535)	(42,290)	(4,140)	(15,874)
New bank loans		48,000	198,059	263,410	57,359	89,326
Repayment of bank loans		(20,000)	(80,000)	(183,611)	(47,000)	(72,000)
New loans from related parties		5,000	9,038	8,000	–	1,645
Repayment of loans from related parties		(7,214)	–	(19,504)	(10,922)	(2,834)
Repayment of long-term payables		(26,594)	(8,508)	(13,408)	(3,899)	(1,026)
Net cash inflow/(outflow) from financing activities		<u>639</u>	<u>123,590</u>	<u>35,517</u>	<u>(4,462)</u>	<u>5,986</u>
(Decrease)/Increase in cash and cash equivalents		(4,790)	10,065	17,467	6,778	39,862
Cash and cash equivalents at beginning of the year/period		<u>15,335</u>	<u>10,545</u>	<u>20,610</u>	<u>20,610</u>	<u>38,077</u>
Cash and cash equivalents at end of the year/period	26(d)	<u>10,545</u>	<u>20,610</u>	<u>38,077</u>	<u>27,388</u>	<u>77,939</u>

Combined statements of changes in equity

	<i>Note</i>	Year ended 31 December			Five months ended 31 May	
		2001	2002	2003	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total equity at beginning of the year/period		41,344	104,916	225,440	225,440	290,908
Profit for the year/period	25	49,935	106,803	84,838	38,785	47,572
Dividends	25	(10,108)	(41,815)	(42,290)	(4,140)	(15,874)
Capital injections into subsidiaries	24	23,745	55,536	22,920	4,140	6,749
Surplus on revaluation of land and buildings, net of taxation	25	—	—	—	—	83,229
Total equity at end of the year/period		<u>104,916</u>	<u>225,440</u>	<u>290,908</u>	<u>264,225</u>	<u>412,584</u>

Notes to the Combined Accounts

1. Basis of preparation

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries, all of which are limited liability private companies, which have substantially the same characteristics as a Hong Kong incorporated limited liability private company and have adopted 31 December as their financial year end date:

Name	Place and date of incorporation/ establishment and operations	Issued and fully paid up capital/ registered capital	Percentage of equity interest attributable to the Group	Operating period	Principal activities
Directly held– Texhong Textile Holdings Limited	British Virgin Islands 26 May 2004	US\$1	100%	N/A	Investment holding
Indirectly held– Texhong Textile (Taizhou) Co., Ltd.	Tai Zhou, PRC 20 October 1997	US\$155,000	100%	13 Years	Manufacturing and sales of yarns and grey fabrics
Texhong Textile (Jinhua) Co., Ltd.	Jinhua, PRC 4 January 1998	US\$350,000	100%	13 Years	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress
Texhong Textile (Suining) Co., Ltd.	Xuzhou, PRC 26 June 1998	US\$150,000	100%	15 Years	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress
Taizhou Texhong Weaving Co., Ltd.	Taizhou, PRC 15 January 2000	US\$2,100,000	100%	15 Years	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning
Zhejiang Texhong Textile Co., Ltd.	Jinhua, PRC 18 May 2000	US\$2,650,000	100% (i)	12 Years	Manufacturing and sales of industrial-use textile products, top-grade grey fabrics and blended-spinning
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)	Xuzhou, PRC 6 June 2000	US\$2,100,000	100%	15 Years	Manufacturing and sales of yarns, grey fabrics, dyed cloth and dress; processing of cotton
Taizhou Century Texhong Textile Co., Ltd.	Taizhou, PRC 23 April 2002	US\$9,000,000 (ii)	100%	15 Years	Manufacturing and sales of industrial-use textile products and top-grade blended-spinning
Zhejiang Century Texhong Textile Co., Ltd.	Jinhua, PRC 10 May 2002	US\$2,650,000	100%	13 Years	Manufacturing and sales of top-grade spinning and fire-resistant fabrics (excluding dyed fabrics)
Nantong Century Texhong Textile Co., Ltd.	Nantong, PRC 7 June 2002	US\$2,200,000	100%	12 Years	Manufacturing and sales of yarns, grey fabrics and dyed fabrics
Xuzhou Century Texhong Textile Co., Ltd.	Xuzhou, PRC 13 January 2003	US\$500,000	100%	10 Years	Manufacturing and sales of top- grade yarns and cloth spinning
Xuzhou Texhong Yinfeng Textile Co., Ltd.	Xuzhou, PRC 12 May 2004	US\$2,100,000 (iii)	100%	10 Years	Manufacturing and sales of yarns, grey fabrics, cloth and dyed fabrics
Nantong Texhong Yin Hai Industrial Co., Ltd.	Nantong, PRC 20 May 2004	US\$500,000	100%	10 Years	Manufacturing and sales of garment, textile and knitting products, and yarns

Notes:

- (i) During the period from 18 May 2000 to 27 February 2002, the Group held 47% interest in Zhejiang Texhong Textile Co., Ltd. On 28 February 2002, the Group acquired the remaining 53% interest in Zhejiang Texhong Textile Co., Ltd. for a cash consideration of RMB5,000,000 and thereafter Zhejiang Texhong Textile Co., Ltd. has become wholly owned by the Group.
- (ii) The Group was committed to contribute capital of US\$9,000,000 (equivalent to RMB74,502,000) into Taizhou Century Texhong Textile Co., Ltd. within three years after its establishment in April 2002, of which approximately US\$3,520,000 (equivalent to RMB29,130,000) was contributed as at 31 May 2004 and the remaining balance of approximately US\$5,480,000 (equivalent to RMB45,372,000) was contributed up to the date of this report.
- (iii) The Group was committed to contribute capital of US\$2,100,000 (equivalent of RMB17,383,800) into Xuzhou Texhong Yinfeng Textile Co., Ltd. within three years after its establishment in May 2004, of which approximately US\$330,000 (equivalent to RMB2,731,740) was contributed as at 31 May 2004 and the remaining balance of approximately US\$1,770,000 (equivalent of RMB14,652,000) was contributed up to the date of this report.
- (iv) All subsidiaries established in PRC are wholly-owned foreign enterprise with limited liabilities. The operating period refers to the operating period granted to each subsidiary from their respective dates of establishment under their respective business licence issued by the relevant government authority.

The Financial Information of the Group for the Relevant Periods have been prepared to present the financial positions, results and cash flows of the companies now comprising the Group as a result of the Reorganisation, as if the current structure of the Group had been in existence throughout the Relevant Periods or since their respective dates of incorporation/establishment where this is a shorter period, except for the acquisition of additional interest in Zhejiang Texhong Textile Co., Ltd. as described in Note (i) above, which was accounted for under the acquisition accounting.

All significant intra-group transactions and balances have been eliminated on combination.

2. Principal accounting policies

The Financial Information is prepared under the historical cost convention. The principal accounting policies adopted in the preparation of the Financial Information, which are in conformity with the Hong Kong Financial Reporting Standards issued by the HKICPA, are set out below:

(a) *Subsidiaries*

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast majority of votes at the meetings of the board of directors.

Other than the Reorganisation referred to in Note 1 above, the results of subsidiaries acquired or disposed of during the year/period are included in the combined profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(b) *Associated companies*

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The combined profit and loss account includes the Group's share of results of the associated companies for the year/period, and the combined balance sheet includes the Group's share of net assets of the associated companies and goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(c) *Negative goodwill*

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair value 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.

(d) *Fixed assets*

(i) *Construction-in-progress*

Construction-in-progress, representing buildings on which construction work has not been completed and machinery pending installation, is stated at cost, which includes construction expenditures incurred, cost of machinery, interest capitalised and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed and put into use. On completion, construction-in-progress is transferred to appropriate categories of fixed assets.

(ii) *Land and buildings*

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 valuation 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. This represents a change in accounting policy with effect from 31 May 2004, which has been accounted for prospectively. Previously, the land and buildings are stated at cost less accumulated depreciation and accumulated impairment losses. The directors consider that the change in accounting policy has resulted in a more appropriate presentation of the value of land and buildings.

(iii) Other fixed assets

Other fixed assets, comprising machinery and equipment, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes the purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of those assets.

(iv) Depreciation

Leasehold land is amortised over the lease period. Other fixed 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 an 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 fixed assets.

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress, land and buildings and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balances remaining attributable to the relevant assets is transferred to retained earnings and is shown as a movement in reserves.

(e) *Government grants/subsidies*

A government grant/subsidy is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received. Under these circumstances, grants/subsidies relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate. Grants/subsidies relating to the purchase of fixed assets are deducted from the carrying amount of the asset. The grant/subsidy is recognised as income over the life of a depreciable asset by way of a reduced depreciation charge.

(f) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(i) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) *Revenue recognition*

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(k) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

*(l) Employees benefits**(i) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The Group presents its accounts in Chinese Renminbi ("RMB"). The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated into RMB at the rates of exchange ruling at the balance sheet date, whilst the profit and loss accounts are translated into RMB at an average rate. Exchange differences are dealt with as a movement in reserves.

(n) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss accounts on a straight-line basis over the lease periods.

(p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries and businesses.

In respect of geographical segment reporting, sales are based on the location of customers. Total assets and capital expenditure are where the assets are located.

3. Turnover, revenue and segment information*(a) Turnover and revenue*

The Group is principally engaged in the manufacturing and sales of yarns, grey fabrics and dyed fabrics. Revenue recognised is as follows:

	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					
Sale of goods (net of value added tax)	343,833	730,152	1,034,340	400,944	497,516
Other revenue					
Subsidy income	—	1,452	2,436	1,188	4,641
Interest income	81	729	227	34	69
Rental income – machinery and equipment	—	—	375	—	250
Total other revenue	81	2,181	3,038	1,222	4,960
Total revenue	<u>343,914</u>	<u>732,333</u>	<u>1,037,378</u>	<u>402,166</u>	<u>502,476</u>

(b) Segment information

The Group operated in one business segment – manufacturing and sale of yarns, grey fabrics and dyed fabrics. It operates principally in one geographical segment – Mainland China. Substantially all of the Group's assets and capital expenditure were located in Mainland China. Accordingly, no analysis of the segment information is presented.

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Crediting –					
Amortisation of negative goodwill (included in general and administrative expenses)	–	1,049	1,258	525	525
Gain on disposal of fixed assets	48	–	–	–	76
Net exchange gains	–	–	–	–	905
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>905</u>
Charging –					
Staff costs (including directors' emoluments (Note 7))	30,747	44,608	61,986	25,749	26,214
Operating leases rental in respect of land and buildings	168	349	437	152	223
Depreciation of fixed assets	5,136	16,238	24,873	9,862	10,655
Loss on disposal of fixed assets	–	428	125	10	–
Provision for bad and doubtful debts	223	596	994	160	320
Provision for slow moving inventories	215	545	–	–	–
Net exchange losses	189	46	5,272	479	–
Auditors' remuneration	75	76	131	33	591
	<u>75</u>	<u>76</u>	<u>131</u>	<u>33</u>	<u>591</u>

5. Finance costs

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank loans and overdrafts wholly repayable within five years	2,151	4,982	8,626	3,337	4,730
Other incidental borrowing costs	17	115	385	203	164
	<u>2,151</u>	<u>4,982</u>	<u>8,626</u>	<u>3,337</u>	<u>4,730</u>
Total borrowing cost incurred	2,168	5,097	9,011	3,540	4,894
Less: amount capitalised in fixed assets	(926)	(121)	(121)	(121)	–
	<u>(926)</u>	<u>(121)</u>	<u>(121)</u>	<u>(121)</u>	<u>–</u>
	<u>1,242</u>	<u>4,976</u>	<u>8,890</u>	<u>3,419</u>	<u>4,894</u>

The capitalisation rates applied to funds borrowed generally and used for the purchase of machinery were approximately 6.4% to 6.7% per annum for the year ended 31 December 2001, approximately 1.7% per annum for the year ended 31 December 2002 and approximately 1.7% per annum for the year ended 31 December 2003.

6. Taxation

The amounts of taxation charged to the combined profit and loss accounts represent:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China enterprise income tax ("EIT")					
– Current	<u>8</u>	<u>110</u>	<u>6,581</u>	<u>2,484</u>	<u>4,124</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the EIT tax rates in Mainland China, where the Group principally operated, as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	<u>49,943</u>	<u>106,913</u>	<u>91,419</u>	<u>41,269</u>	<u>51,696</u>
EIT weighted-average tax rates in Mainland China	29%	33%	30%	30%	31%
Taxation at EIT weighted-average tax rates	14,483	35,281	27,426	12,381	16,026
Tax effect of					
– income subject to tax exemption	(14,348)	(35,394)	(21,322)	(9,797)	(11,685)
– income not subject to taxation	–	–	(48)	–	–
– expenses not deductible for taxation purposes	3	41	346	–	–
Others	<u>(130)</u>	<u>182</u>	<u>179</u>	<u>(100)</u>	<u>(217)</u>
Taxation charge	<u>8</u>	<u>110</u>	<u>6,581</u>	<u>2,484</u>	<u>4,124</u>

Notes:

(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 Relevant Periods.

(ii) Mainland China enterprise income tax

The subsidiaries established in Mainland China are subject to EIT at rates ranging from 24% to 33% during the Relevant Periods.

These subsidiaries, being wholly foreign owned enterprises established in Mainland China, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement to 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 in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

(iii) 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 subsidiary established in the British Virgin Islands was incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, is exempted from payment of British Virgin Islands income tax.

(iv) Mainland China value-added tax ("VAT")

The Group's sales of self-manufactured products are subject to Mainland China Value-Added Tax. 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 years ended 31 December 2001, 2002 and 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.

7. Staff cost (including directors' emoluments)

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages and salaries	25,914	39,907	53,943	22,404	22,861
Pension cost – defined contribution plans	3,139	3,735	4,659	1,865	1,966
Other employment benefits	1,694	966	3,384	1,480	1,387
	<u>30,747</u>	<u>44,608</u>	<u>61,986</u>	<u>25,749</u>	<u>26,214</u>

8. Retirement benefit costs and other employment benefits

As stipulated by rules and regulations in Mainland China, the Group has participated in state-sponsored defined contribution retirement plans for its employees in Mainland China. The Group and the eligible employees are required to contribute 9% to 22% and 7% to 8%, respectively, of the employees' basic salary at rates as stipulated by the relevant municipal governments. The Group has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to the retired employees. For the years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2003 and 2004, the Group contributed approximately RMB3,139,000, RMB3,735,000, RMB4,659,000, RMB1,865,000 and RMB1,966,000, respectively, to the aforesaid state-sponsored retirement plans.

In addition, all of the Group's employees in Mainland China participate in employee social security plans, which is a defined contribution plan, including medical, housing and other welfare benefits, organised and administered by governmental authorities. For the years ended 31 December 2001, 2002, 2003 and the five months ended 31 May 2003 and 2004, the Group contributed approximately RMB759,000, RMB1,169,000, RMB2,016,000, RMB690,000 and RMB625,000, respectively, to these plans.

As at 31 December 2001, 2002, 2003 and 31 May 2004, the Group was not entitled to any forfeited contributions to reduce the Group's future contributions for the above contribution plans.

9. Dividends

The Company was incorporated in the Cayman Islands on 12 July 2004. During the Relevant Periods, no dividends has been declared by the Company.

The dividends disclosed during the Relevant Periods represent dividends declared by the following subsidiaries out of their retained earnings to their then shareholders, as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Texhong Textile (Jinhua) Co., Ltd.	9,048	623	—	—	—
Taizhou Texhong Weaving Co., Ltd.	1,060	18,304	5,780	—	1,024
Zhejiang Texhong Textile Co., Ltd.	—	8,767	13,000	—	—
Jiangsu Century Texhong Textile Co., Ltd.	—	14,121	23,510	4,140	14,850
	<u>10,108</u>	<u>41,815</u>	<u>42,290</u>	<u>4,140</u>	<u>15,874</u>

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

10. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company are as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments –					
Basic salaries and allowances	102	102	124	53	53
Discretionary bonuses	—	140	200	—	—
	<u>102</u>	<u>242</u>	<u>324</u>	<u>53</u>	<u>53</u>

The emoluments of the directors fell within the following bands:

	Number of directors				
	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
RMB Nil – RMB1,060,000 (equivalent to HK\$Nil to HK\$1,000,000)	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

All directors during the Relevant Periods were executive directors. None of the directors waived any emoluments during the Relevant Periods.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2001, 2002 and 2003 and the five months ended 31 May 2003 and 2004 included four directors, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual during the Relevant Periods were as follows:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Basic salaries and allowances	11	–	22	12	12
Discretionary bonuses	–	50	50	–	–
	<u>11</u>	<u>50</u>	<u>72</u>	<u>12</u>	<u>12</u>

The emoluments fell within the following bands:

	Number of directors				
	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
RMB Nil – RMB1,060,000 (equivalent to HK\$Nil to HK\$1,000,000)	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

- (c) During the Relevant Periods, no emoluments have been paid to the directors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Company or as compensation for loss of office.

11. Earnings per share

No earnings per share figure is presented as its inclusion is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis, as disclosed in Section I – Note 1.

12. Negative goodwill

Movements were:

	Year ended 31 December			Five months ended 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At beginning of year/period	–	–	(12,585)	(12,585)
Acquisition of a subsidiary (Note 26(c))	–	(12,585)	–	–
At end of year/period	–	(12,585)	(12,585)	(12,585)
Accumulated amortisation				
At beginning of the year/period	–	–	1,049	2,307
Amortisation for the year/period	–	1,049	1,258	525
At end of year/period	–	1,049	2,307	2,832
Net book value				
At end of year/period	–	(11,536)	(10,278)	(9,753)

13. Fixed assets

Movements were:

	Land and buildings <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost/valuation						
At 1 January 2001	16,344	20,151	29,709	241	321	66,766
Additions	7,371	38,171	14,881	435	758	61,616
Disposals	–	–	(86)	–	–	(86)
Transfer	404	(58,269)	57,865	–	–	–
At 31 December 2001	24,119	53	102,369	676	1,079	128,296
Acquisition of a subsidiary	11,507	–	41,820	56	309	53,692
Additions (iv)	26,321	93,625	21,280	323	837	142,386
Disposals	(305)	–	(1,549)	(24)	(39)	(1,917)
Transfer	2,402	(33,217)	30,815	–	–	–
At 31 December 2002	64,044	60,461	194,735	1,031	2,186	322,457
Additions	498	17,012	7,431	1,060	530	26,531
Disposals	–	(395)	(924)	(72)	(138)	(1,529)
Transfer	13,705	(72,243)	58,362	–	176	–
At 31 December 2003	78,247	4,835	259,604	2,019	2,754	347,459
Additions	17,853	25,776	12,375	225	2,348	58,577
Revaluation (ii)	106,476	–	–	–	–	106,476
Disposals	–	–	(143)	–	–	(143)
Transfer	2,934	(5,356)	2,422	–	–	–
At 31 May 2004	205,510	25,255	274,258	2,244	5,102	512,369

	Land and buildings RMB'000	Construction- in-progress RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
Accumulated depreciation						
At 1 January 2001	(320)	–	(2,932)	(80)	(20)	(3,352)
Charge for the year	(643)	–	(4,371)	(68)	(54)	(5,136)
At 31 December 2001	(963)	–	(7,303)	(148)	(74)	(8,488)
Charge for the year	(1,413)	–	(14,495)	(134)	(196)	(16,238)
Disposals	20	–	226	6	14	266
At 31 December 2002	(2,356)	–	(21,572)	(276)	(256)	(24,460)
Charge for the year	(2,228)	–	(22,053)	(274)	(318)	(24,873)
Disposals	–	–	268	18	28	314
At 31 December 2003	(4,584)	–	(43,357)	(532)	(546)	(49,019)
Charge for the period	(795)	–	(9,604)	(84)	(172)	(10,655)
Revaluation (ii)	5,379	–	–	–	–	5,379
Disposals	–	–	24	–	–	24
At 31 May 2004	–	–	(52,937)	(616)	(718)	(54,271)
Net book value						
At 31 December 2001	<u>23,156</u>	<u>53</u>	<u>95,066</u>	<u>528</u>	<u>1,005</u>	<u>119,808</u>
At 31 December 2002	<u>61,688</u>	<u>60,461</u>	<u>173,163</u>	<u>755</u>	<u>1,930</u>	<u>297,997</u>
At 31 December 2003	<u>73,663</u>	<u>4,835</u>	<u>216,247</u>	<u>1,487</u>	<u>2,208</u>	<u>298,440</u>
At 31 May 2004	<u>205,510</u>	<u>25,255</u>	<u>221,321</u>	<u>1,628</u>	<u>4,384</u>	<u>458,098</u>

The analysis of the cost or valuation of the net book value of the above fixed assets is as follows:

	Land and Buildings RMB'000	Construction- in-progress RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Total RMB'000
At 31 December 2001						
At cost	<u>23,156</u>	<u>53</u>	<u>95,066</u>	<u>528</u>	<u>1,005</u>	<u>119,808</u>
At 31 December 2002						
At cost	<u>61,688</u>	<u>60,461</u>	<u>173,163</u>	<u>755</u>	<u>1,930</u>	<u>297,997</u>
At 31 December 2003						
At cost	<u>73,663</u>	<u>4,835</u>	<u>216,247</u>	<u>1,487</u>	<u>2,208</u>	<u>298,440</u>
At 31 May 2004						
At cost	–	25,255	221,321	1,628	4,384	252,588
At valuation	<u>205,510</u>	–	–	–	–	<u>205,510</u>
	<u>205,510</u>	<u>25,255</u>	<u>221,321</u>	<u>1,628</u>	<u>4,384</u>	<u>458,098</u>

Notes:

- (i) All land and buildings are located in Mainland China and are held under land use rights for a period of 10 to 50 years.
- (ii) Land and buildings were stated at open market value at 31 May 2004, based on a valuation carried out by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The revaluation surplus net of applicable deferred tax liabilities was credited to fixed assets revaluation reserve in equity (Note 25).

The carrying amount of the land and buildings as at 31 May 2004 would have been RMB93,655,000 had they been stated at cost less accumulated depreciation.

- (iii) Land and buildings with net book values of RMB3,372,000, RMB18,529,000, RMB21,196,000 and RMB45,250,000 as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively, were pledged as collateral of the Group's short-term bank loans (Note 21).

Machinery and equipment with net book values of RMB18,082,000, RMB63,757,000, RMB86,900,000 and RMB95,693,000 as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively, were pledged as collateral of the Group's short-term bank loans (Note 21).

- (iv) During the year ended 31 December 2002, addition of land amounting to RMB4,400,000 represented cost of acquisition of the land of RMB26,289,000 less related government grants of RMB21,889,000 deducted from the acquisition cost (Note 27(i)).

14. Investment in an associated company

	As at 31 December			As at
	2001	2002	2003	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2004
				<i>RMB'000</i>
Share of net assets in				
Zhejiang Texhong Textile Co., Ltd.				
(Note 1(i))	22,593	—	—	—

15. Inventories

	As at 31 December			As at
	2001	2002	2003	31 May
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2004
				<i>RMB'000</i>
Raw materials	14,937	34,766	76,222	77,873
Work-in-progress	6,614	16,649	20,460	19,267
Finished goods	12,828	31,347	36,371	40,868
	34,379	82,762	133,053	138,008
Less: Provision for loss on realisation of inventories	(365)	(910)	(910)	(910)
	34,014	81,852	132,143	137,098

No inventories were stated at net realisable value as at 31 December 2001, 2002 and 2003 and 31 May 2004.

16. Trade and bills receivables

	As at 31 December			As at 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (ii)	23,703	78,605	96,628	89,853
Bills receivables	220	4,113	7,662	15,795
	<u>23,923</u>	<u>82,718</u>	<u>104,290</u>	<u>105,648</u>

Notes:

- (i) The Group's customers are generally required to settle sales invoices within 90 days from the invoice dates. Ageing analysis of the trade and bills receivables are as follows:

	As at 31 December			As at 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 30 days	20,138	54,777	72,291	77,793
31 to 90 days	140	24,397	24,147	17,835
91 to 180 days	1,684	2,533	2,691	6,477
181 days to 1 year	1,733	524	1,619	3,303
Over 1 year	272	917	4,302	1,320
	<u>23,967</u>	<u>83,148</u>	<u>105,050</u>	<u>106,728</u>
Less: provision for bad debts	(44)	(430)	(760)	(1,080)
	<u>23,923</u>	<u>82,718</u>	<u>104,290</u>	<u>105,648</u>

- (ii) Included in the trade receivables were amounts due from related parties of RMB128,000, RMB2,917,000, RMB3,240,000 and RMB5,503,000 as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively (Note 30(c)).

17. Prepayments, deposits and other receivables

	As at 31 December			As at 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits for purchases				
of raw materials	4,596	38,000	58,516	29,126
Staff advances and loans	317	626	1,039	4,015
Other receivables	309	1,714	2,698	1,719
VAT recoverable	650	1,824	1,387	413
Prepayments	95	8	281	401
Deposits	728	677	101	860
	<u>6,695</u>	<u>42,849</u>	<u>64,022</u>	<u>36,534</u>

Included in the deposits for purchase of raw materials were amounts due from related parties of Nil, RMB19,370,000, Nil and Nil as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively (Note 30(c)).

18. Bank and cash balances

All bank and cash balances were denominated in Chinese Renminbi ("RMB"), which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the People's Republic of China ("PRC"), and the remittance of these funds out of Mainland China is subject to the exchange restrictions imposed by the Government of the PRC.

19. Trade and bills payable

	As at 31 December			As at 31 May 2004
	2001	2002	2003	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables (ii)	21,924	40,767	52,815	46,354
Bills payable	200	20,370	—	8,000
	<u>22,124</u>	<u>61,137</u>	<u>52,815</u>	<u>54,354</u>

Notes:

(i) The ageing analyses of the trade and bills payables are as follows:

	As at 31 December			As at 31 May 2004
	2001	2002	2003	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	16,816	38,948	49,641	43,544
91 days to 180 days	4,211	20,382	917	9,186
181 days to 1 year	363	893	334	—
1 year to 2 years	578	458	1,478	1,164
Over 2 years	156	456	445	460
	<u>22,124</u>	<u>61,137</u>	<u>52,815</u>	<u>54,354</u>

(ii) Included in the trade payables were amounts due to related parties of Nil, RMB72,000, RMB966,000 and Nil as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively (Note 30(c)).

20. Accruals and other payables

	As at 31 December			As at 31 May 2004
	2001	2002	2003	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits from customers	5,406	12,054	10,166	10,152
Taxation payables other than EIT	2,339	3,681	1,229	483
Other payables	6,504	5,814	5,478	5,083
Accrued wages and salaries	1,835	3,869	5,521	3,094
Deposits	1,638	2,688	2,072	3,148
Accruals	251	1,803	1,631	3,835
	<u>17,973</u>	<u>29,909</u>	<u>26,097</u>	<u>25,795</u>

21. Bank loans

	As at 31 December			As at 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans				
– secured	28,000	73,932	116,500	78,900
– unsecured	10,000	82,127	119,358	174,284
	<u>38,000</u>	<u>156,059</u>	<u>235,858</u>	<u>253,184</u>

Bank loans bore interest at rates ranging from 6.4% to 8.4% per annum, 1.7% to 7.6% per annum, 1.7% to 6.4% per annum, and 1.69% to 5.84% per annum for the years ended 31 December 2001, 2002 and 2003 and the five months ended 31 May 2004, respectively.

Certain bank loans were secured by the followings:

- (i) pledge of certain of the Group's land and buildings and machinery and equipment with aggregated net book values of approximately RMB21,454,000, RMB82,286,000, RMB108,096,000 and RMB140,943,000 as at 31 December 2001, 2002 and 2003, and 31 May 2004, respectively (Note 13); and
- (ii) corporate guarantees provided by certain subsidiaries amounting to RMB10,000,000, RMB82,127,000, RMB117,258,000 and RMB80,127,000 as at 31 December 2001, 2002 and 2003, and 31 May 2004, respectively.

22. Long-term payables

Long-term payables represent outstanding consideration payable for the acquisition of groups of fixed assets from liquidated enterprises, and is analysed as follows:

	As at 31 December			As at 31 May
	2001	2002	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts repayable				
– within one year	17,440	20,004	13,767	23,946
– in the second year	1,190	7,171	205	9,000
– in the third to fifth years inclusive	2,258	205	–	–
	<u>20,888</u>	<u>27,380</u>	<u>13,972</u>	<u>32,946</u>
Less: Current portion	(17,440)	(20,004)	(13,767)	(23,946)
Long-term portion	<u>3,448</u>	<u>7,376</u>	<u>205</u>	<u>9,000</u>

Among the total outstanding consideration of RMB32,946,000, RMB18,341,000 has been paid up to the date of this report.

23. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using various taxation rates applicable to the Group's subsidiaries of the Group.

The movements in deferred tax liabilities were as follows:

	Fixed assets revaluation reserves RMB'000
At 1 January 2001, 2002 and 2003 and 2004	—
Deferred taxation charged to equity in relation to the revaluation reserve of land and buildings (<i>Note 25</i>)	28,626
At 31 May 2004	<u>28,626</u>

24. Share capital

The Company was incorporated in Cayman Islands on 12 July 2004 and therefore there was no issued share capital of the Company during the Relevant Periods. As at 31 December 2001, 2002, 2003 and 31 May 2004, the combined share capital represented the aggregate amount of the paid up capital of subsidiaries.

Movements were:

	2001	As at 31 December	2003	As at
	RMB'000	2002	RMB'000	31 May
	RMB'000	RMB'000	RMB'000	2004
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year/period	29,049	52,794	108,330	131,250
Capital injections to subsidiaries	23,745	55,536	22,920	6,749
At end of the year/period	<u>52,794</u>	<u>108,330</u>	<u>131,250</u>	<u>137,999</u>

25. Reserves

Movements were:

	Statutory reserves (i) RMB'000	Retained profits RMB'000	Fixed assets revaluation reserve RMB'000	Total RMB'000
At 1 January 2001	1,591	10,704	—	12,295
Profit for the year	—	49,935	—	49,935
Transfer to statutory reserves	5,530	(5,530)	—	—
Dividend	—	(10,108)	—	(10,108)
At 31 December 2001	7,121	45,001	—	52,122
Profit for the year	—	106,803	—	106,803
Transfer to statutory reserves	10,136	(10,136)	—	—
Dividends	—	(41,815)	—	(41,815)
At 31 December 2002	17,257	99,853	—	117,110
Profit for the year	—	84,838	—	84,838
Transfer to statutory reserves	5,978	(5,978)	—	—
Dividends	—	(42,290)	—	(42,290)
At 31 December 2003	23,235	136,423	—	159,658
Profit for the period	—	47,572	—	47,572
Surplus on revaluation of land and buildings				
— gross (Note 13)	—	—	111,855	111,855
— deferred taxation (Note 23)	—	—	(28,626)	(28,626)
Transfer to statutory reserves	1,819	(1,819)	—	—
Dividends	—	(15,874)	—	(15,874)
At 31 May 2004	<u>25,054</u>	<u>166,302</u>	<u>83,229</u>	<u>274,585</u>

Note:

- (i) According to the rules and regulations in Mainland China and the articles of association of the relevant subsidiaries of the Group established in Mainland China, the Mainland China subsidiaries are required to transfer not less than 10% of its after-tax profits, as determined under the relevant accounting rules and regulations in Mainland China, to statutory reserves before the corresponding Mainland China subsidiaries can distribute any dividend. Such transfer is not required when the amount of the statutory reserve reaches 50% of the corresponding subsidiaries' registered capital.

Statutory reserves shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval by resolutions of the corresponding subsidiaries' shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to existing owners in proportion to their existing ownership structure.

26. Notes to combined cashflow statements

(a) Reconciliation of profit before taxation to net cash generated from operations:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	49,943	106,913	91,419	41,269	51,696
Share of profit of an associated company	(8,289)	(572)	—	—	—
Interest income	(81)	(729)	(227)	(34)	(69)
Interest expense	1,225	4,861	8,505	3,216	4,730
Amortisation of negative goodwill	—	(1,049)	(1,258)	(525)	(525)
Depreciation of fixed assets	5,136	16,238	24,873	9,862	10,655
(Gain)/loss on disposal of fixed assets	(48)	428	125	10	(76)
	47,886	126,090	123,437	53,798	66,411
Increase in inventories	(12,379)	(41,174)	(50,291)	(29,785)	(4,955)
(Increase)/decrease in trade and bills receivables	(14,759)	(49,696)	(21,572)	(13,281)	(1,358)
(Increase)/decrease in prepayments, deposits and other receivables	14,536	(26,035)	(21,173)	12,780	27,488
Increase/(decrease) in trade and bills payable	10,303	38,379	(8,322)	4,243	1,539
Increase/(decrease) in accruals and other payables	17,567	(484)	(3,812)	1,586	(302)
Net cash generated from operations	<u>63,154</u>	<u>47,080</u>	<u>18,267</u>	<u>29,341</u>	<u>88,823</u>

(b) Analysis of changes in financing:

	Share capital RMB'000	Bank loans RMB'000	loans from related parties RMB'000	Long-term payables RMB'000
Balance at 1 January 2001	29,049	10,000	7,214	43,434
New loans	–	48,000	5,000	–
Repayment of loans	–	(20,000)	(7,214)	–
New capital injected	23,745	–	–	–
Deferred payments relating to acquisition of groups of fixed assets from liquidated enterprises	–	–	–	4,048
Repayment of long-term payables	–	–	–	(26,594)
Balance at 31 December 2001	52,794	38,000	5,000	20,888
New loans	–	198,059	9,038	–
Repayment of loans	–	(80,000)	–	–
New capital injected	55,536	–	–	–
Related parties loans relating to acquisition of a subsidiary	–	–	8,300	–
Deferred payments relating to acquisition of groups of fixed assets from liquidated enterprises	–	–	–	15,000
Repayment of long-term payables	–	–	–	(8,508)
Balance at 31 December 2002	108,330	156,059	22,338	27,380
New loans	–	263,410	8,000	–
Repayment of loans	–	(183,611)	(19,504)	–
New capital injected	22,920	–	–	–
Repayment of long-term payables	–	–	–	(13,408)
Balance at 31 December 2003	131,250	235,858	10,834	13,972
New loans	–	89,326	1,645	–
Repayment of loans	–	(72,000)	(2,834)	–
New capital injected	6,749	–	–	–
Deferred payments relating to acquisition of groups of fixed assets from liquidated enterprises	–	–	–	20,000
Repayment of long-term payables	–	–	–	(1,026)
Balance at 31 May 2004	<u>137,999</u>	<u>253,184</u>	<u>9,645</u>	<u>32,946</u>
Balance at 31 December 2002	108,330	156,059	22,338	27,380
New bank loans	–	57,359	–	–
Repayment of bank loans	–	(47,000)	(10,922)	–
New capital injected	4,140	–	–	–
Repayment of long-term payables	–	–	–	(3,899)
Balance at 31 May 2003	<u>112,470</u>	<u>166,418</u>	<u>11,416</u>	<u>23,481</u>

(c) Purchase of a subsidiary:

During the period from 18 May 2000 to 27 February 2002, the Group held 47% interest in Zhejiang Texhong Textile Co., Ltd. On 28 February 2002, the Group acquired the remaining 53% interest in Zhejiang Texhong Textile Co., Ltd. for a cash consideration of RMB5,000,000 and thereafter Zhejiang Texhong Textile Co., Ltd. has become wholly owned by the Group.

Details of the above purchases are as follows:

	As at 31 December			As at 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets acquired					
Fixed assets	—	53,692	—	—	—
Inventories	—	6,664	—	—	—
Trade and bills receivables	—	9,099	—	—	—
Prepayments, deposits and other receivables	—	10,214	—	—	—
Bank and cash balances	—	5,435	—	—	—
Trade and bills payables	—	(634)	—	—	—
Accruals and other payables	—	(12,420)	—	—	—
Due to related parties	—	(8,300)	—	—	—
Bank loans	—	(23,000)	—	—	—
	—	40,750	—	—	—
Less: share of net assets of an associated company	—	(23,165)	—	—	—
	—	17,585	—	—	—
Negative goodwill	—	(12,585)	—	—	—
Consideration	—	5,000	—	—	—
Satisfied by –					
Cash	—	5,000	—	—	—

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:

	As at 31 December			As at 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash consideration	—	(5,000)	—	—	—
Bank and cash balances acquired	—	5,435	—	—	—
Bank loans assumed	—	(23,000)	—	—	—
	—	(22,565)	—	—	—

(d) Analysis of cash and cash equivalents:

	As at 31 December			As at 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and cash balances	10,545	20,610	38,077	27,388	77,939

27. Contingent liabilities

The Group had contingent liabilities not provided for as follows:

	As at 31 December			As at
	2001	2002	2003	31 May
	RMB'000	RMB'000	RMB'000	2004
				RMB'000
Guarantees provided to Tianhong Dyeing & Printing (Wuxi) Co., Ltd. (Note 30(d))	–	–	8,000	8,000
Government grants obtained from the Management Committee of Taizhou Economic Develop Zone (Note (i))	–	21,889	21,889	21,889
	<u>–</u>	<u>21,889</u>	<u>21,889</u>	<u>21,889</u>
	<u>–</u>	<u>21,889</u>	<u>29,889</u>	<u>29,889</u>

The Directors of the Company and the management of the Group anticipate that no material liabilities will arise from the above guarantees.

Note:

- (i) During the year ended 31 December 2002, Taizhou Century Texhong Textile Co., Ltd., a wholly owned subsidiary, acquired a plot of land in Mainland China for RMB26,289,000 and paid RMB4,400,000, with the remaining balance of RMB21,889,000 covered by government grants (Note 13(iv)). The Group has obtained a confirmation from the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, that the amount of RMB21,889,000 represents grants to Taizhou Century Texhong Textile Co., Ltd. by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, and such an amount had been settled by the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, with the relevant Land Resources Bureau of Taizhou City and the Group will not be responsible for the payment of such an amount. However, in case that the Management Committee of Taizhou Economic Development Zone, Jiangsu Province, is not the appropriate authority responsible for the settlement, the Group may be liable to pay the balance of the acquisition cost amounting to RMB21,889,000.

28. Banking facilities

As at 31 December 2001, 2002 and 2003 and 31 May 2004, the Group had available banking facilities of Nil, RMB74,000,000, RMB78,000,000 and RMB80,700,000, respectively, which were utilised to the extent of Nil, RMB36,000,000, RMB48,400,000 and RMB46,500,000, respectively. These banking facilities were secured by the followings:

- (i) pledges of the Group's land and buildings and machinery and equipment with aggregated net book values of approximately RMB21,454,000, RMB82,286,000, RMB108,096,000 and RMB140,943,000 as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively; and
- (ii) Corporate guarantees provided by certain subsidiaries amounting to RMB10,000,000, RMB82,127,000, RMB117,258,000, RMB80,127,000 as at 31 December 2001, 2002 and 2003 and 31 May 2004, respectively.

29. Commitments

(a) Operating leases:

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings			As at 31 May 2004
	As at 31 December			
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Not later than one year	180	180	431	1,217
Later than one year but not later than five years	210	30	634	2,251
	<u>390</u>	<u>210</u>	<u>1,065</u>	<u>3,468</u>

(b) Capital commitments:

	As at 31 December			As at 31 May 2004
	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000
Authorised, contracted but not provided for				
– Purchase of machinery and equipment	<u>–</u>	<u>–</u>	<u>1,565</u>	<u>2,340</u>

(c) Commitment in relation to capital injections into subsidiaries:

– Taizhou Century Texhong Textile Co., Ltd. (Note 1(ii))	–	17,238	37,110	45,372
– Xuzhou Texhong Yinfeng Textile Co., Ltd. (Note 1(iii))	–	–	–	14,652
	<u>–</u>	<u>17,238</u>	<u>37,110</u>	<u>60,024</u>

30. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) During the Relevant Periods, the Company's directors and the Group's management are of the view that the following companies/individuals are related parties of the Group:

Name of related party	Relationship with the Group
Hongkong Tinhong Industrial Co., Ltd.	Shareholder
Nantong Shuanghong Textile Co., Ltd.	Controlled by Hong Weihe, father of Hong Tianzhu, a director

Name of related party	Relationship with the Group
Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	Controlled by Hongkong Tinhong Industrial Co., Ltd.
Pujiang Xintian Textile Co., Ltd.	Controlled by Hong Xinbei, brother of Hong Tianzhu, a director
Nantong Textile Group Co., Ltd.	Associate company of Hongkong Tinhong Industrial Co., Ltd.
Hong Tianzhu	Director

(b) Transactions with associated company and related parties:

The Group had the following significant transactions with its associated company and related parties, as follows –

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Continuing –					
Related companies –					
Nantong Textile Group Co., Ltd.					
Sales of goods	–	–	1,530	–	1,290
Tianhong Dyeing & Printing (Wuxi) Co., Ltd.					
Purchase of goods	48	500	5,121	761	8,392
Sales of goods	1,447	1,762	8,265	2,409	7,287
Subcontracting fee	–	–	230	–	–
	<u>–</u>	<u>–</u>	<u>230</u>	<u>–</u>	<u>–</u>
Discontinuing –					
Associated company –					
Zhejiang Texhong Textile Co., Ltd.					
Purchase of goods	1,213	–	–	–	–
Sales of goods	17,195	–	–	–	–
Related companies –					
Nantong Shuanghong Textile Co., Ltd.					
Purchase of goods	–	5,042	30,922	9,157	33,825
Sales of goods	–	10,314	3,045	2,186	5,451
Receipt of rental income	–	–	375	–	250
Subcontracting fee	–	–	672	512	1,754
Pujiang Xintian Textile Co., Ltd.					
Purchase of equity interest in Zhejiang Texhong Textile Co., Ltd.	–	5,000	–	–	–
	<u>–</u>	<u>5,000</u>	<u>–</u>	<u>–</u>	<u>–</u>

In the opinion of the Company's directors and the Group's management, the above related party transactions were carried out in the ordinary course of business and conducted in normal commercial terms, in accordance with the terms of the underlying agreements and/or the invoices issued by the associated company/respective parties.

(c) Balances with related parties:

The Group had the following significant balances with related parties:

	2001	As at 31 December		As at
	RMB'000	2002	2003	31 May
		RMB'000	RMB'000	2004
				RMB'000
<i>Trade-related: Due from related parties</i>				
Trade receivables (<i>Note 16(ii)</i>)				
– Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	128	723	3,180	5,294
– Nantong Shuanghong Textile Co., Ltd	–	2,194	60	209
	128	2,917	3,240	5,503
Deposit for purchase of raw materials (<i>Note 17</i>)				
– Nantong Textile Group Co., Ltd.	–	19,370	–	–
	128	22,287	3,240	5,503
<i>Non-trade: Due from related parties</i>				
Loans to related parties				
– Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	90	8,422	5,090	5,590
– Pujiang Xintian Textile Co., Ltd.	566	–	1,128	1,170
– Nantong Shuanghong Textile Co., Ltd	–	–	484	–
– Mr. Gong Zhao	–	–	–	1,110
	656	8,422	6,702	7,870
Deposits paid to related parties for acquisitions of business				
– Nantong Shuanghong Textile Co., Ltd	–	–	–	7,000
	656	8,422	6,702	14,870
<i>Trade related: Due to related parties</i>				
(<i>Note 19(ii)</i>)				
Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	–	–	966	–
Nantong Shuanghong Textile Co., Ltd.	–	72	–	–
	–	72	966	–
<i>Non-trade: Due to related parties</i>				
Loans from related parties				
– Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	–	–	–	1,645
– Nantong Shuanghong Textile Co., Ltd.	–	1,789	95	–
– Nantong Textile Group Co., Ltd.	–	–	8,000	8,000
– Pujiang Xintian Textile Co., Ltd.	–	6,600	–	–
– Mr Hong Tianzhu	5,000	13,949	2,739	–
	5,000	22,338	10,834	9,645
Dividend payable to the then shareholder				
– Hongkong Tinhong Industrial Co., Ltd.	9,333	613	613	613
	14,333	22,951	11,447	10,258

Notes:

- (i) These balances are unsecured, interest-free and without pre-determined repayment terms.
- (ii) Subsequent to 31 May 2004, all of the above non-trade balances were settled.
- (iii) Maximum balances outstanding with related parties during the Relevant Periods were:

	Year ended 31 December			Five months ended 31 May	
	2001	2002	2003	2003	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Related companies:					
Loans to related parties					
– Tianhong Dyeing & Printing (Wuxi) Co., Ltd.	90	8,422	8,422	8,422	5,590
– Pujiang Xintian Textile Co., Ltd.	566	566	1,128	–	1,170
– Nantong Shuanghong Textile Co., Ltd.	–	–	484	–	484
– Mr. Gong Zhao	–	–	–	–	1,110
	<u>656</u>	<u>8,988</u>	<u>10,034</u>	<u>8,422</u>	<u>8,354</u>

- (d) As at 31 December 2003 and 31 May 2004, the Group had provided guarantees to Tianhong Dyeing & Printing (Wuxi) Co., Ltd ("Tianhong Wuxi") of RMB8,000,000 in respect of the bank loans of Tianhong Wuxi and such guarantees will be released upon the full repayment of bank loans by Tianhong Wuxi. Subsequent to 31 May 2004, Tianhong Wuxi repaid the bank loans of RMB8,000,000.

31. Subsequent events

The following significant events have taken place subsequent to 31 May 2004:

- (a) With effect from 2 June 2004, the Group acquired from Nantong Shuanghong Textile Co., Ltd., a related party, its entire business and certain assets at a cash consideration of RMB6,756,000. Nantong Shuanghong Textile Co., Ltd. was principally engaged in manufacturing and sales of textile and knitting products and garments in Mainland China.
- (b) Subsequent to 31 May 2004, certain subsidiaries of the Group declared dividends of approximately RMB178,302,000 to their then shareholders prior to the completion of the Reorganisation of the Group. Among the total dividends declared, RMB30 million was paid by cash and approximately RMB60,140,000 was reinvested as capital of certain subsidiaries to satisfy the capital injection requirement (Note 1 (ii) and (iii)).
- (c) Pursuant to the written resolution of the shareholders of the Company on 21 November 2004, the Company has adopted a Pre-IPO Share Option Scheme, details of which have been set out in sub-section headed "Share Option Schemes" in Appendix VII of the Prospectus. Up to the date of this report, 4,342,000 options were granted to certain senior management of the Group under the Pre-IPO Share Option Scheme to subscribe shares in the Company at HK\$0.69 per share, and remained outstanding as at the date of this report. These options are exercisable over a period of 3 years commencing from and including the date falling six months after the date of listing of shares of the Company on The Stock Exchange of Hong Kong Limited.

- (d) On 21 November 2004, the companies now comprising the Group underwent the Reorganisation in preparation for the listing of the Company on The Stock Exchange of Hong Kong Limited, and the Company has become the holding company of the Group. Details of the Reorganisation are set out in the sections headed "Group reorganisation" in Appendix VII of the Prospectus.
- (e) On 21 November 2004, shareholders' resolutions were passed to effect the conditional increase in the Company's share capital as described in the section headed "Changes in share capital of the Company" of Appendix VII to the Prospectus.

II. FINANCIAL INFORMATION ABOUT THE COMPANY

1. Net assets of the Company

At 31 May 2004, the Company had not been incorporated and, accordingly, it had no assets or liabilities as at that date.

2. Distributable reserves

At 31 May 2004, the Company had not been incorporated and, accordingly, it had no available distribution reserves as at that date.

III. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2004. In addition, except for disclosed in Section I – Note 31(b), no dividend or distribution has been declared, made or paid by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong