

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
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Central, Hong Kong

30 November 2004

The Directors
Nantong Shuanghong Textile Co., Ltd.
Texhong Textile Group Limited
Goldbond Capital (Asia) Limited

Dear Sirs,

We set out below our report on the financial information relating to Nantong Shuanghong Textile Co., Ltd. ("Nantong Shuanghong") for the period from 29 April 2002 (date of incorporation) to 31 December 2002, the year ended 31 December 2003 and the five months ended 31 May 2003 and 2004 ("the Relevant Periods"), for inclusion in the prospectus of Texhong Textile Group Limited dated 30 November 2004 ("the Prospectus") in connection with the initial listing of shares of Texhong Textile Group Limited on The Stock Exchange of Hong Kong Limited.

Nantong Shunghong is a limited liability company established in Mainland China on 29 April 2002 for a period of 20 years up to 29 April 2022.

The audited accounts of Nantong Shuanghong was prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises in Mainland China and were audited by Nantong Weiye United Certified Public Accountants, certified public accountants registered in Mainland China, for the period from 29 April 2002 (date of incorporation) to 31 December 2002 and the year ended 31 December 2003.

For the purpose of this report, the Directors of Nantong Shuanghong have prepared accounts of Nantong Shuanghong for the Relevant Periods in accordance with accounting principles generally accepted in Hong Kong ("the HK GAAP 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 Accounts of Nantong Shuanghong for the Relevant Periods.

The financial information as set out in Section I below ("the Financial Information") has been prepared based on the HK GAAP Accounts. We have examined the Financial Information 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 Nantong Shuanghong are responsible for preparing the HK GAAP accounts which give a true and fair view. In preparing these

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accounts, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of Nantong Shuanghong are 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, gives a true and fair view of the state of affairs of Nantong Shuanghong as at 31 December 2002 and 2003 and 31 May 2004, and of the results and cash flows of Nantong Shuanghong for the Relevant Periods.

I. FINANCIAL INFORMATION ABOUT NANTONG SHUANGHONG

The following is the accounts of Nantong Shuanghong as at 31 December 2002 and 2003 and 31 May 2004 and for the period from 29 April 2002 (date of incorporation) to 31 December 2002, the year ended 31 December 2003 and the five months ended 31 May 2003 and 31 May 2004:

Profit and loss accounts

		Period from 29 April 2002 to 31 December 2002	Year ended 31 December 2003	Five months ended 31 May 2003	2004
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	29,258	37,419	9,158	43,579
Cost of sales		<u>(28,402)</u>	<u>(35,826)</u>	<u>(8,556)</u>	<u>(42,685)</u>
Gross profit		856	1,593	602	894
Other revenue	2	–	11	–	63
Selling and distribution expenses		(761)	(1,301)	(592)	(573)
General and administrative expenses		<u>(396)</u>	<u>(748)</u>	<u>(304)</u>	<u>(525)</u>
Operating loss	3	(301)	(445)	(294)	(141)
Finance costs	4	<u>(1)</u>	<u>(30)</u>	<u>(1)</u>	<u>(1)</u>
Loss before taxation		(302)	(475)	(295)	(142)
Taxation	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the year/period		<u><u>(302)</u></u>	<u><u>(475)</u></u>	<u><u>(295)</u></u>	<u><u>(142)</u></u>

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Balance sheets

		As at 31 December		As at
		2002	2003	31 May
	Note	RMB'000	RMB'000	2004
				RMB'000
Non-current assets				
Fixed assets	9	161	250	4,782
Current assets				
Inventories	10	960	2,682	953
Trade and bills receivables	11	976	1,689	4,386
Prepayments, deposits and other receivables	12	148	598	4,293
Due from related parties	19(c)	1,789	95	–
Bank and cash balances	13	94	1,219	539
Total current assets		3,967	6,283	10,171
Current liabilities				
Trade and bills payable	14	2,356	1,047	3,842
Accruals and other payables	15	974	4,679	4,230
Due to related parties	19(c)	600	1,084	7,300
Total current liabilities		3,930	6,810	15,372
Net current assets/(liabilities)		37	(527)	(5,201)
Total assets less current liabilities		198	(277)	(419)
Net assets		198	(277)	(419)
Financed by:				
Share capital	16	500	500	500
Accumulated losses	17	(302)	(777)	(919)
Equity		198	(277)	(419)

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Cash flow statements

		Period from 29 April 2002 to 31 December 2002	Year ended 31 December 2003	Five months ended 31 May 2003	2004
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Operating activities					
Net cash generated from/(used in) operations	18(a)	869	(2,553)	(2,632)	(1,474)
Interest received		–	1	–	15
Taxation refunded/(paid)		(19)	(75)	1	(158)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (outflow)/inflow from operating activities		850	(2,627)	(2,631)	(1,617)
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Investing activities					
Purchase of fixed assets		(167)	(126)	(1)	(3,574)
New loans to related parties		(1,789)	(95)	–	–
Repayment of loans to related parties		–	1,789	1,789	95
Proceeds from sales of business		–	–	–	7,000
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (outflow)/inflow from investing activities		(1,956)	1,568	1,788	3,521
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Net cash (outflow)/inflow before financing		(1,106)	(1,059)	(843)	1,904
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Financing activities	18(b)				
Capital injections		500	–	–	–
Loans from third parties		100	1,700	290	–
Repayment of loans from third parties		–	–	–	(1,800)
Loans from directors		600	–	–	–
Repayment of loans from directors		–	–	–	(300)
Loans from related parties		–	1,143	1,143	–
Repayment of loans from related parties		–	(659)	–	(484)
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow) from financing activities		1,200	2,184	1,433	(2,584)
		<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Increase/(decrease) in cash and cash equivalents		94	1,125	590	(680)
Cash and cash equivalents at beginning of year/period		–	94	94	1,219
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of year/period	18(c)	94	1,219	684	539
		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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Statements of changes in equity

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Total equity at beginning of year/period	–	198	198	(277)
Loss for the year/period	(302)	(475)	(295)	(142)
Capital injections	500	–	–	–
Total equity at end of the year/period	<u>198</u>	<u>(277)</u>	<u>(97)</u>	<u>(419)</u>

Notes to the accounts

1. Principal accounting policies

The Financial Information is prepared under the historical cost convention and has been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA.

(a) Fixed assets

(i) Fixed assets

Fixed assets, comprising machinery and equipment and furniture and fixtures, 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.

(ii) Depreciation

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 the estimated residual value of 5% of cost. The principal annual rates are as follows:

Machinery and equipment	9.5%
Furniture and fixtures	19%

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.

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(iii) *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 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.

(b) 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.

(c) 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.

(d) Provisions

Provisions are recognised when Nantong Shuanghong 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 Nantong Shuanghong expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(e) 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.

Processing income is recognised when services are rendered to customers.

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

(f) 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*

Nantong Shuanghong's contributions to the defined contribution retirement schemes are expensed as incurred.

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(g) Translation of foreign currencies

Nantong Shuanghong presents its accounts in Chinese Renminbi ("RMB"). 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.

(h) 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 Nantong Shuanghong. 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 Nantong Shuanghong. 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.

(i) 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.

(j) 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.

(k) Segment reporting

In accordance with Nantong Shuanghong's internal financial reporting Nantong Shuanghong 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 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 fixed assets.

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.

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2. Turnover, revenue and segment information

(a) Turnover and revenue

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

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover				
Sale of goods (net of value added tax)	29,258	36,747	8,646	41,825
Processing income	–	672	512	1,754
	<u>29,258</u>	<u>37,419</u>	<u>9,158</u>	<u>43,579</u>
Total turnover				
	<u>29,258</u>	<u>37,419</u>	<u>9,158</u>	<u>43,579</u>
Other revenue				
Subsidy income	–	10	–	48
Interest income	–	1	–	15
	<u>–</u>	<u>11</u>	<u>–</u>	<u>63</u>
Total other revenue				
	<u>–</u>	<u>11</u>	<u>–</u>	<u>63</u>
Total revenue	<u>29,258</u>	<u>37,430</u>	<u>9,158</u>	<u>43,642</u>

(b) Segment information

Nantong Shuanghong operated in one business segment – manufacturing and sale of yarns, grey fabrics and dyed fabrics. It operates principally in one geographical segment – Mainland China. All of the assets and capital expenditure were located in Mainland China. Accordingly, no analysis of the segment information is presented.

3. Operating loss

Operating loss is stated after charging the following:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Charging –				
Staff costs (including directors' emoluments) (Note 6)	329	700	269	215
Depreciation of fixed assets	6	37	14	48
Operating leases rental in respect of land and buildings	–	375	–	250
	<u>–</u>	<u>375</u>	<u>–</u>	<u>250</u>

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4. Finance costs

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Interest on loans from directors	1	30	1	1
	<u>1</u>	<u>30</u>	<u>1</u>	<u>1</u>

5. Taxation

(a) Hong Kong profits tax

No provision for Hong Kong profits tax has been made as Nantong Shuanghong did not carry out any business in Hong Kong during the Relevant Periods.

(b) Mainland China enterprise income tax

Nantong Shuanghong is subject to Mainland China enterprise income tax ("EIT") at a rate of 33% during the Relevant Periods. No provision for EIT has been made as Nantong Shuanghong had no assessable profit for the Relevant Periods.

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

Nantong Shuanghong's sales of self-manufactured products are subject to Mainland China Value-Added Tax. The applicable tax rate for domestic sales is 17%.

Input VAT on purchases can be deducted from output VAT. VAT payable is the net difference between output and deductible input VAT.

6. Staff cost (including directors' emoluments)

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Wages and salaries	202	463	184	110
Other employment benefits	127	237	85	105
	<u>329</u>	<u>700</u>	<u>269</u>	<u>215</u>

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7. Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of Nantong Shuanghong are as follows:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Fees	–	–	–	–
Other emoluments –				
Basic salaries and allowances	24	48	20	20
Discretionary bonuses	–	–	–	–
	<u>24</u>	<u>48</u>	<u>20</u>	<u>20</u>

The emoluments of the directors fell within the following bands:

	Number of directors			
	Period from 29 April 2002 to 31 December 2002	Year ended 31 December 2003	Five months ended 31 May 2003	2004
RMBNil – RMB1,060,000 (equivalent to HK\$Nil to HK\$1,000,000)	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</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 Nantong Shuanghong for the Relevant Periods include two directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the Relevant Periods are as follows:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Basic salaries and allowances	18	60	25	25
Discretionary bonuses	–	–	–	–
	<u>18</u>	<u>60</u>	<u>25</u>	<u>25</u>

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The emoluments fell within the following bands:

	Number of individuals			
	Period from 29 April 2002 to 31 December 2002	Year ended 31 December 2003	Five months ended 31 May 2003 2004	
RMBNil – RMB1,060,000 (equivalent to HK\$Nil to HK\$1,000,000)	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

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

8. Earnings per share

Earnings per share figure is not applicable since there was no share issued by Nantong Shuanghong.

9. Fixed assets

Movement were:

	Machinery and equipment <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Total <i>RMB'000</i>
Cost			
At 29 April 2002 (date of incorporation)	–	–	–
Additions	<u>130</u>	<u>37</u>	<u>167</u>
At 31 December 2002	130	37	167
Additions	<u>126</u>	<u>–</u>	<u>126</u>
At 31 December 2003	256	37	293
Additions	<u>4,580</u>	<u>–</u>	<u>4,580</u>
At 31 May 2004	<u>4,836</u>	<u>37</u>	<u>4,873</u>
Accumulated depreciation			
At 29 April 2002 (date of incorporation)	–	–	–
Charge for the year	<u>(2)</u>	<u>(4)</u>	<u>(6)</u>
At 31 December 2002	(2)	(4)	(6)
Charge for the year	<u>(30)</u>	<u>(7)</u>	<u>(37)</u>
At 31 December 2003	(32)	(11)	(43)
Charge for the period	<u>(44)</u>	<u>(4)</u>	<u>(48)</u>
At 31 May 2004	<u>(76)</u>	<u>(15)</u>	<u>(91)</u>
Net book value			
At 31 December 2002	<u>128</u>	<u>33</u>	<u>161</u>
At 31 December 2003	<u>224</u>	<u>26</u>	<u>250</u>
At 31 May 2004	<u>4,760</u>	<u>22</u>	<u>4,782</u>

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10. Inventories

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2004 RMB'000
Raw materials	614	313	943
Work-in-progress	346	288	—
Finished goods	—	2,081	10
	960	2,682	953
	960	2,682	953

11. Trade and bills receivables

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2004 RMB'000
Trade receivables (<i>Note (ii)</i>)	976	1,689	4,086
Bills receivables	—	—	300
	976	1,689	4,386
	976	1,689	4,386

Notes:

- (i) Nantong Shuanghong's customers are generally required to settle sales invoices within 30 days from the invoice dates. Ageing analysis of the trade and bills receivables are as follows:

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2004 RMB'000
0 to 30 days	976	1,689	4,386
	976	1,689	4,386
	976	1,689	4,386

- (ii) Included in the trade receivables balances were amounts due from related parties of RMB72,000, Nil and Nil as at 31 December 2002 and 2003 and 31 May 2004, respectively (*Note 19(c)*).

12. Prepayments, deposits and other receivables

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2004 RMB'000
Deposits for purchases of raw materials	67	331	271
Prepayments	—	80	19
Tax recoverable	19	94	252
Other receivables	62	93	201
Loan to third party	—	—	3,550
	148	598	4,293
	148	598	4,293

13. 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.

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14. Trade and bills payable

	As at 31 December 2002	2003	As at 31 May 2004
	RMB'000	RMB'000	RMB'000
Trade payables (Note (ii))	2,356	1,047	3,842

Notes:

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

	As at 31 December 2002	2003	As at 31 May 2004
	RMB'000	RMB'000	RMB'000
0 to 90 days	2,356	1,047	3,842

- (ii) Included in the trade payables were amounts due to related parties of RMB2,194,000, RMB60,000, RMB209,000 as at 31 December 2002 and 2003 and 31 May 2004, respectively (Note 19(c)).

15. Accruals and other payables

	As at 31 December 2002	2003	As at 31 May 2004
	RMB'000	RMB'000	RMB'000
Deposits from customers	160	582	153
Taxation payables other than EIT	147	383	530
Accrued wages and salaries	14	305	86
Accrued social funds	308	1,099	1,620
Deposits	56	175	–
Other payables	132	220	745
Payables for purchase of fixed assets	–	–	1,006
Loans from third parties	100	1,800	–
Accruals	57	115	90
	974	4,679	4,230

16. Share capital

Nantong Shuanghong was a limited liability company incorporated in Nantong, Jiangsu Province, PRC on 29 April 2002. As at 31 December 2002 and 2003 and 31 May 2004, the share capital represented the paid up capital of Nantong Shuanghong.

Movements were:

	As at 31 December 2002	2003	As at 31 May 2004
	RMB'000	RMB'000	RMB'000
At beginning of the year/period	–	500	500
Capital injections	500	–	–
At end of the year/period	500	500	500

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17. Accumulated losses

Movements were:

	<i>RMB'000</i>
At 29 April 2002 (date of incorporation)	–
Loss for the period	(302)
At 31 December 2002	(302)
Loss for the year	(475)
At 31 December 2003	(777)
Loss for the period	(142)
At 31 May 2004	<u>(919)</u>

18. Notes to cashflow statements

(a) Reconciliation of loss before taxation to net cash generated from/(used in) operations:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Loss before taxation	(302)	(475)	(295)	(142)
Interest income	–	(1)	–	(15)
Depreciation of fixed assets	6	37	14	48
	<u>(296)</u>	<u>(439)</u>	<u>(281)</u>	<u>(109)</u>
(Increase)/decrease in inventories	(960)	(1,722)	(1,445)	1,729
(Increase)/decrease in trade and bills receivables	(976)	(713)	839	(2,697)
Increase in prepayments, deposits and other receivables	(129)	(375)	(289)	(3,537)
Increase/(decrease) in trade and bills payable	2,356	(1,309)	(1,526)	2,795
Increase in accruals and other payables	874	2,005	70	345
	<u>869</u>	<u>(2,553)</u>	<u>(2,632)</u>	<u>(1,474)</u>
Net cash generated from/(used in) operations	<u>869</u>	<u>(2,553)</u>	<u>(2,632)</u>	<u>(1,474)</u>

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(b) Analysis of changes in financing:

	Share capital RMB'000	Loans from third parties RMB'000	Loans from directors RMB'000	Loans from related parties RMB'000
Balance at 29 April 2002 (date of incorporation)	–	–	–	–
New capital injected	500	–	–	–
New loans	–	100	600	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2002	500	100	600	–
New loans	–	1,700	–	1,143
Repayment of loans	–	–	–	(659)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2003	500	1,800	600	484
Deposit received for sales of business	–	–	–	7,000
Repayment of loans	–	(1,800)	(300)	(484)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 May 2004	<u>500</u>	<u>–</u>	<u>300</u>	<u>7,000</u>
Balance at 31 December 2002	500	100	600	–
New loans	–	290	–	1,143
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 May 2003	<u>500</u>	<u>390</u>	<u>600</u>	<u>1,143</u>

(c) Analysis of cash and cash equivalents:

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2003 RMB'000	2004 RMB'000
Bank and cash balances	<u>94</u>	<u>1,219</u>	<u>684</u>	<u>539</u>

19. 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, Nantong Shuanghong's directors and management are of the view that the following companies/individuals are related parties of Nantong Shuanghong:

Name of related party	Relationship with Nantong Shuanghong
Mr. Zhu Yongxiang	Director of Nantong Shuanghong
Mr. Hu Jianhua	Director of Nantong Shuanghong
Mr. Sha Yunlong	Director of Nantong Shuanghong
Texhong Textile (Suining) Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director
Taizhou Texhong Weaving Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director
Taizhou Century Texhong Textile Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director

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Name of related party	Relationship with Nantong Shuanghong
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)	Controlled by Hong Tianzhu, son of Hong Weihe, a director
Zhejiang Texhong Textile Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director
Nantong Century Texhong Textile Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director
Nantong Texhong Yinhai Industrial Co., Ltd.	Controlled by Hong Tianzhu, son of Hong Weihe, a director

(b) Transactions with related parties:

Nantong Shuanghong had the following significant transactions with its related parties:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Texhong Textile (Suining) Co., Ltd.				
Payment of rental expenses	–	375	–	250
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)				
Sales of goods	572	2,828	2,828	3,967
Purchase of goods	9,679	2,556	2,112	520
Taizhou Texhong Weaving Co., Ltd.				
Sales of goods	1,098	–	–	–
Taizhou Century Texhong Textile Co., Ltd.				
Sales of goods	–	12,064	672	16,875
Purchase of goods	–	–	–	1,540
Zhejiang Texhong Textile Co., Ltd.				
Sales of goods	3,309	11,183	3,766	10,759
Purchase of goods	–	17	–	847
Processing income	–	672	512	1,754
Nantong Century Texhong Textile Co., Ltd.				
Sales of goods	63	4,847	1,891	2,224
Purchase of goods	635	472	74	2,544

In the opinion of Nantong Shuanghong's directors and management, the above related party transactions were carried out in the ordinary course of business, and in accordance with the terms of the underlying agreements.

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(c) Balances with related parties:

Nantong Shuanghong had the following significant balances with related parties:

	As at 31 December 2002 RMB'000	2003 RMB'000	As at 31 May 2004 RMB'000
Due from related parties			
– Trade related (<i>note 11(ii)</i>)			
Taizhou Texhong Weaving Co., Ltd.	72	–	–
– Non-trade			
Loans to related parties			
Nantong Century Texhong Textile Co., Ltd.	1,789	95	–
Due to related parties			
– Trade related (<i>note 14(ii)</i>)			
Jiangsu Century Texhong Textile Co., Ltd. (formerly known as Jiangsu Xintian Textile Co., Ltd.)	2,194	60	209
– Non-trade			
Loans from related parties			
Taizhou Century Texhong Textile Co., Ltd.	–	317	–
Zhejiang Texhong Textile Co., Ltd.	–	34	–
Nantong Century Texhong Textile Co., Ltd.	–	133	–
	–	484	–
Loans from directors			
Mr. Zhu Yongxiang	300	300	–
Mr. Hu Jianhua	160	160	160
Mr. Sha Yunlong	140	140	140
	600	600	300
Deposit received for sales of business Nantong Texhong Yinhai Industrial Co., Ltd.	–	–	7,000
	600	1,084	7,300

Notes:

- (i) Except for the loans from directors, these balances are unsecured, interest-free and without pre-determined repayment terms.
- (ii) Loans from directors are unsecured and with no pre-determined repayment terms. The loans are interest bearing at a rate of 1.98% per annum for the Relevant Periods.
- (iii) Subsequent to 31 May 2004, all of the above non-trade balances were settled.

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(iv) Maximum balances outstanding with related parties during the Relevant Periods were:

	Period from 29 April 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Five months ended 31 May 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Related companies:				
Loans to related parties				
– Nantong Century Texhong Textile Co., Ltd.	1,789	1,789	1,789	95

20. Subsequent events

On 31 May 2004, Nantong Shuanghong entered into a sale and purchase agreement with a related party, Nantong Texhong Yinhai Industrial Co., Ltd., to sell all its fixed assets as well as its business, for a cash consideration of RMB4,782,000. Such a sale was completed in June 2004.

On 21 October 2004, Nantong Shuanghong and Nantong Texhong Yinhai Industrial Co., Ltd. entered into a supplementary contract to above agreement, to sell Nantong Shuanghong's inventories for a cash consideration of RMB1,974,000. Such a sale was completed in August 2004.

II. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for Nantong Shuanghong in respect of any period subsequent to 31 May 2004, In addition, no dividend or distribution has been declared, made or paid by Nantong Shuanghong in respect of any period subsequent to 31 May 2004.

Yours faithfully,
PricewaterhouseCoopers
 Certified Public Accountants
 Hong Kong