

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 12 July 2004 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares. On 27 July 2004, an aggregate of 1,000,000 Shares were allotted and issued nil paid, as to 999,999 Shares to New Green Group Limited; and as to the remaining one Share to Codan Trust Company (Cayman) Limited, which was transferred to New Green Group Limited on the same date. The said 1,000,000 nil paid Shares were subsequently paid up in the manner described in paragraph 4 below.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in Appendix VI to this prospectus.

2. Changes in share capital of the Company*(a) Increase in authorised share capital*

Pursuant to a resolution in writing passed by the then sole shareholder of the Company on 21 November 2004, the authorised share capital of the Company was increased to HK\$200,000 by the creation of a further 1,000,000 Shares, which were on that date issued credited as fully paid as described in paragraph 4 below. The authorised share capital of the Company was further increased to HK\$400 million by the creation of a further 3,998 million Shares pursuant to a resolution passed by all the shareholders referred to in paragraph 3 below.

Immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the exercise of the options granted under the Pre-IPO Share Option Scheme or the options which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK\$400 million divided into 4,000 million Shares, of which 872 million Shares will be issued fully paid or credited as fully paid, and 3,128 million Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, the authorised share capital of the Company will be HK\$400 million divided into 4,000 million Shares, of which 904.7 million Shares will be issued fully paid or credited as fully paid, and 3,095.3 million Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, the exercise of the options granted under the Pre-IPO Share Option Scheme or the options which may be granted under the Share Option Scheme, the Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraphs 1 and 3 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

(b) *Founder shares*

The Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of all Shareholders passed on 21 November 2004

On 21 November 2004, pursuant to resolutions in writing passed by all the then Shareholders:

- (a) the Company adopted its existing articles of association;
- (b) conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the authorised share capital of the Company was increased from HK\$200,000 to HK\$400 million by the creation of a further 3,998 million Shares;
 - (ii) the Share Offer and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the New Shares pursuant to the New Issue and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option and to approve the transfer of the Sale Shares pursuant to the Offer for Sale;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15(B) of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
 - (iv) conditional on the share premium account being credited as a result of the New Issue, the Directors were authorised to capitalise HK\$69,560,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 695,600,000 Shares in aggregate for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 21 November 2004 (or as they may direct) in proportion (as nearly as may be without involving fractions) to their then existing shareholdings in the Company;

- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, or upon the exercise of any options granted under the Pre-IPO Share Option Scheme or any options which may be granted under the Share Option Scheme or under the New Issue or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and (bb) the nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and
- (vi) a general unconditional mandate ("**Repurchase Mandate**") was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the Main Board. The reorganisation involved the transfer to the Company by New Green Group Limited an aggregate of 100 shares with par value of US\$1 each, being the entire issued share capital of Texhong BVI, the intermediate holding company of the Group, in consideration and in exchange for which, the Company (i) allotted and issued, credited as fully paid, an aggregate of 1,000,000 new Shares, as to 200,000 Shares to New Green Group Limited and as to 500,000, 260,000 and 40,000 Shares to Trade Partner Investments Limited, Wisdom Grace Investments Limited and Flourish City Investments Limited, respectively, as directed by New Green Group Limited; and (ii) credited as fully paid at par the 1,000,000 nil-paid Shares then held by New Green Group Limited.

In addition to the transfer of shares in Texhong BVI referred to above, the Group also underwent the following corporate restructuring:

Pursuant to 12 sale and purchase agreements entered into between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser, Texhong BVI acquired the 100% equity interest in 12 wholly foreign owned enterprises from Hong Kong Tin Hong at the respective considerations set out in the table below, which were satisfied by the allotment and issue of an aggregate of 99 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong. Particulars of the acquisitions referred to above are set out as follows:

Date of agreements	Name of the acquired company	Consideration
26 July 2004	Jiangsu Century Texhong	RMB84,270,838.03
8 July 2004	Nantong Century Texhong	RMB45,100,211
8 July 2004	Nantong Texhong Yin Hai	RMB4,138,450
8 August 2004	Taizhou Century Texhong	US\$9,000,000
8 August 2004	Taizhou Texhong Weaving	US\$2,100,000
8 July 2004	Texhong Suining	RMB605,161
8 August 2004	Texhong Jinhua	RMB4,578,264.86
8 July 2004	Texhong Textile Taizhou	RMB1
26 July 2004	Xuzhou Century Texhong	RMB15,388,982.91
30 July 2004	Xuzhou Texhong Yinfeng	RMB2,610,000
8 July 2004	Zhejiang Century Texhong	RMB21,470,544
8 August 2004	Zhejiang Texhong	RMB42,643,312.81

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus.

In addition to the reorganisation described in paragraph 4 of this Appendix, the following alterations in the share capital of each of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

- (a) on 13 January 2003, Xuzhou Century Texhong was established as a wholly foreign owned enterprise in the PRC with a registered capital of US\$500,000 (equivalent to approximately HK\$3,900,000), which was fully paid up by Hong Kong Tin Hong on 11 February 2003;
- (b) on 4 December 2003, the registered capital of Taizhou Century Texhong was approved to be increased from US\$5,600,000 to US\$8,000,000 (equivalent to approximately HK\$62,400,000), the increased part of US\$2,400,000 was fully paid up by Hong Kong Tin Hong on 10 August 2004;

- (c) on 1 March 2004, the registered capital of Taizhou Century Texhong was approved to be increased from US\$8,000,000 (equivalent to approximately HK\$62,400,000) to US\$9,000,000 (equivalent to approximately HK\$70,200,000), the increased part of US\$1,000,000 was fully paid up by Hong Kong Tin Hong on 10 August 2004;
- (d) on 30 April 2004, Xuzhou Texhong Yinfeng was established as a wholly foreign owned enterprise in the PRC with a registered capital of US\$2,100,000 (equivalent to approximately HK\$16,380,000) which was fully paid up by Hong Kong Tin Hong on 27 July 2004;
- (e) on 20 May 2004, Nantong Texhong Yin Hai was established as a wholly foreign owned enterprise in the PRC with a registered capital of US\$500,000 (equivalent to approximately HK\$16,380,000) which was fully paid up by Hong Kong Tin Hong on 26 May 2004;
- (f) on 26 May 2004, Texhong BVI was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each, one share of which was allotted and issued to New Green Group Limited at par on 14 June 2004; and
- (g) on 4 November 2004, the registered capital of Jiangsu Century Texhong was approved to be increased from US\$2,100,000 (equivalent to approximately HK\$16,380,000) to US\$7,100,000 (equivalent to approximately HK\$55,380,000). The Directors expect that the increased part of the registered capital of US\$5,000,000 is to be paid up at around the end of December 2004.

Save as disclosed herein and in paragraph 4 of this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's articles of association and the Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorised by its articles of association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of

the Shares to be repurchased must be provided for out of profits or the share premium account of the Company or, if authorised by its articles of association and subject to the Companies Law, out of capital.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its articles of association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

Assuming that the Over-allotment Option is not exercised, the exercise in full of the Repurchase Mandate, on the basis of 872 million Shares in issue immediately after the listing of the Shares on the Main Board, would result in up to 87.2 million Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

Assuming that the Over-allotment Option is exercised in full and on the basis of 904.7 million Shares in issue immediately after the exercise of the Over-allotment Option, the exercise in full of the Repurchase Mandate, would result in up to 90.47 million Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. Registration under Part XI of the Companies Ordinance

The Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Rooms 2532-2536, 25th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company has been registered as an overseas company under Part XI of the Companies Ordinance. Mr. Hong and Mr. Zhu Yongxiang, both are executive Directors, have been appointed as agents of the Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an agreement (in Chinese) dated 26 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Jiangsu Century Texhong at a consideration of RMB84,270,838.03 satisfied by the allotment and issue of 22 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (b) an agreement (in Chinese) dated 8 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Nantong Century Texhong at a consideration

of RMB45,100,211 satisfied by the allotment and issue of 12 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;

- (c) an agreement (in Chinese) dated 8 August 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Taizhou Century Texhong at a consideration of US\$9 million satisfied by the allotment and issue of 31 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (d) an agreement (in Chinese) dated 8 August 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Taizhou Texhong Weaving at a consideration of US\$2.1 million satisfied by the allotment and issue of eight shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (e) an agreement (in Chinese) dated 8 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Texhong Textile Taizhou at a consideration of RMB1 satisfied by the allotment and issue of one share of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (f) an agreement (in Chinese) dated 8 August 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Texhong Jinhua at a consideration of RMB4,578,264.86 satisfied by the allotment and issue of one share of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (g) an agreement (in Chinese) dated 8 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Texhong Suining at a consideration of RMB605,161 satisfied by the allotment and issue of one share of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (h) an agreement (in Chinese) dated 26 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong

- BVI of the 100% equity interest in Xuzhou Century Texhong at a consideration of RMB15,388,982.91 satisfied by the allotment and issue of four shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
- (i) an agreement (in Chinese) dated 30 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Xuzhou Texhong Yinfeng at a consideration of RMB2,610,000 satisfied by the allotment and issue of one share of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
 - (j) an agreement (in Chinese) dated 8 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Zhejiang Century Texhong at a consideration of RMB21,470,544 satisfied by the allotment and issue of 5 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
 - (k) an agreement (in Chinese) dated 8 August 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Zhejiang Texhong at a consideration of RMB42,643,312.81 satisfied by the allotment and issue of 12 shares of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
 - (l) an agreement (in Chinese) dated 8 July 2004 made between Hong Kong Tin Hong as vendor and Texhong BVI as purchaser for the acquisition by Texhong BVI of the 100% equity interest in Nantong Texhong Yin Hai at a consideration of RMB4,138,450 satisfied by the allotment and issue of one share of US\$1 each in Texhong BVI to New Green Group Limited as directed by Hong Kong Tin Hong, which is supplemented by an agreement referred to in item (m) of this paragraph below;
 - (m) an agreement (in Chinese) dated 4 November 2004 made between Hong Kong Tin Hong and Texhong BVI as supplemental to the agreements referred to in (a) to (l) above, pursuant to which Hong Kong Tin Hong directed Texhong BVI to allot and issue an aggregate of 99 shares of US\$1 each in Texhong BVI to New Green Group Limited to satisfy the aggregate consideration set out in the agreements referred to in (a) to (l) above;
 - (n) an agreement dated 21 November 2004 made between New Green Group Limited as vendor; (ii) Mr. Hong as warrantor; and (iii) the Company as purchaser for the acquisition by the Company of the entire issued share capital of Texhong BVI in consideration of (aa) the allotment and issue, credited

as fully paid, of an aggregate of 1,000,000 new Shares, as to 200,000 Shares to New Green Group Limited and as to 500,000, 260,000 and 40,000 Shares to Trade Partner Investments Limited, Wisdom Grace Investments Limited and Flourish City Investments Limited as directed by New Green Group Limited; and (bb) the crediting as fully paid at par of the 1,000,000 nil paid Shares held by New Green Group Limited;

- (o) a deed of indemnity dated 29 November 2004 executed by New Green Group Limited, Hong Kong Tin Hong and Mr. Hong in favour of the Company for itself and as trustee for its subsidiaries stated therein containing the indemnities in respect of estate duty, taxation and other liabilities more particularly referred to in paragraph 16 of this Appendix; and
- (p) the Underwriting Agreement.

9. Intellectual Property Rights of the Group

Trademarks

- (i) As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following trademarks registered in the PRC:




Trade marks	Class	Duration of validity	Registration number	Products/ Services covered
新竹	24	From 21 April 2003 to 20 April 2013	3078637	cloth
新竹	23	From 28 March 2003 to 27 March 2013	3078636	thread
新竹	23	From 28 August 2004 to 27 August 2014	3439936	yarn; cotton thread and yarn; spun cotton; stretch yarn for textile use; spun thread and yarn; linen thread and yarn; embroidered thread and yarn; darning thread and yarn; rayon thread and yarn; linen thread



Trade marks	Class	Duration of validity	Registration number	Products/ Services covered
虹泰	23	From 21 July 2002 to 20 July 2012	1811559	stretch silk (for textile use); darning thread and yarn; stretch yarn for textile use; spun cotton; woolen thread and carded wool yarn; cotton thread and yarn; rayon thread and yarn; yarn; spun thread and yarn; linen thread and yarn
虹泰	24	From 21 August 2002 to 20 August 2012	1930564	fabric; stretch fabric (for textile use); fiber filament for textile use; fiber filament; non-weaving textile product; wool fabric; cotton fabric; woolen goods; textile; drapery
虹泰	25	From 21 October 2002 to 20 October 2012	1937141	upholstery strap; glove (fashion); scarf
世纪天虹	24	From 21 December 2002 to 20 December 2012	2002109	cloth; cloth for dinning table (textile); bedclothes; bedspread; stretch fabric for textile use; band (wall-hanging); textile filter-material; wool fabric; oxford; textile
东方天虹	24	From 7 February 2003 to 6 February 2013	2002116	Textile filter-material

Trade marks	Class	Duration of validity	Registration number	Products/ Services covered
时代天虹	24	From 21 December 2002 to 20 December 2012	2002118	cloth; cloth for dinning table (textile); bedclothes; bedspread; stretch fabric for textile use; band (wall-hanging); textile filter-material; wool fabric; oxford; textile
HONGTEX	23	From 21 July 2002 to 20 July 2012	1811560	stretch silk (for textile use); darning thread and yarn; stretch yarn for textile use; spun cotton; woolen thread and carded wool yarn; cotton thread and yarn; rayon thread and yarn; yarn; spun thread and yarn; linen thread and yarn
TEX-HONG	24	From 14 October 2002 to 13 October 2012	1932413	cloth; stretch fabric (for textile use); fiber filament for textile use; fiber filament; non-weaving textile product; wool fabric; cotton fabric; woolen goods; textile; drapery
HONGTEX	25	From 7 September 2002 to 6 September 2012	1937136	shirt; costume; hat (for head); upholstery strap; leather coat (costume); glove (fashion); sock; scarf; shoes; knitwear

- (ii) As at the Latest Practicable Date, the Group had applied for registrations of the following trade marks in the PRC, the registrations of which have not yet been granted:

Trade marks	Class	Application date	Application number	Products/ services covered
天虹纺	24	19 March 2003	3491676	drapery; textile; fiber filament; cloth; cotton fabric; stretch fabric (for textile use); cotton fabric; non-weaving textile product; fiber filament for textile use; woolen goods;
TEX-HONG	23	19 March 2003	3491675	yarn; spun cotton; spun thread and yarn; linen thread and yarn; darning thread and yarn; stretch thread and yarn for textile use; stretch silk (for textile use); rayon thread and yarn; cotton thread and yarn; woolen thread and carded wool yarn;
TEX-HONG	25	19 March 2003	3491678	costume; shirt; knitwear; shoes (for feet); hat (for head); sock; glove (fashion); scarf; upholstery strap; leather coat (costume)
HONGTEX	24	19 March 2003	3491677	drapery; textile; fiber filament; cloth; cotton fabric; stretch fabric (for textile use); wool fabric; non-weaving textile product; fiber filament for textile use; woolen goods;

Trade marks	Class	Application date	Application number	Products/ services covered
	23	24 March 2003	3495937	yarn; spun cotton; spun thread and yarn; linen thread and yarn; darning thread and yarn; stretch yarn for textile use; stretch silk (for textile use); rayon thread and yarn; cotton thread and yarn; woolen thread and carded wool yarn;
	24	24 March 2003	3495936	drapery; textile; fiber filament; cloth; cotton fabric; stretch fabric (for textile use); wool fabric; non-weaving textile product; fiber filament for textile use; woolen goods;
	23	22 November 2004	300323522	Spandex stretch yarn, polyester and rayon blended stretch yarn, rayon stretch yarn, combed cotton yarn and carded cotton yarn, spun rayon yarn and cotton, slubby yarn, other yarns and threads
	24	22 November 2004	300323522	Spandex stretch grey fabrics, cotton kahaki grey fabrics, cotton poplin grey fabrics, satin grey fabrics, dobby grey fabrics and interweaved grey fabrics, garment fabrics, other fabrics and textile goods

Trade marks	Class	Application date	Application number	Products/ services covered
	23	<i>Note</i>	<i>Note</i>	1. yarn; 2. cotton thread and cotton yarn; 3. embroidered thread; 4. woolen thread and carded wool yarn; 5. spun cotton; 6. spun thread and yarn; 7. rayon thread and yarn; 8. darning thread and yarn; 9. stretch thread and yarn for textile us; 10. linen thread and yarn
	24	<i>Note</i>	<i>Note</i>	1. fiber filament; 2. silk (cloth); 3. cotton cloth for printing; 4. wool fabric; 5. fiber filament; 6. light filament (cloth); 7. fiber filament for textile use; 8. filter cloth; 9. bedclothes; 10. fabric handkerchief

Note: The applications for registration of the trade marks were submitted on 11 September 2004 to the PRC Trademark Bureau and as at the Latest Practicable Date, the Group had not yet received the acceptance of application notice issued by PRC Trademark Bureau.

Domain Name

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain name	Registration Date	Expiry Date
texhong.com.cn	19 September 2003	19 September 2005

10. Further information about the Group's PRC establishments

The Group has interests in the registered capital of twelve wholly foreign-owned enterprises established in the PRC. A summary of the corporate information of these enterprises are set out as follows:

- | | | | |
|-----|--------|--|--|
| (a) | (i) | Name of the enterprise: | 江蘇世紀天虹紡織有限公司
Jiangsu Century Texhong Textile Co., Ltd.
(Formerly known as
“江蘇新天紡織有限公司
Jiangsu Xintian Textile Co., Ltd.”) |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$14,200,000 (equivalent to approximately
HK\$110,760,000) |
| | (v) | Registered capital: | US\$7,100,000 (equivalent to approximately
HK\$55,380,000 among which, as to
US\$2,100,000 had been paid up
and the remaining US\$5,000,000
is expected to be paid up at around
the end of December 2004) |
| | (vi) | Attributable interest to
the Group: | 100% |
| | (vii) | Term: | 15 years, from 6 June 2000 to 6 June 2015 |
| | (viii) | Scope of business: | Production and sale of yarn, grey fabric,
printed and dyed fabric and knitwear;
subscription of processed cotton |
| | (ix) | Legal representative: | Tang Daoping |
| (b) | (i) | Name of the enterprise: | 南通世紀天虹紡織有限公司
Nantong Century Texhong Textile Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$4,200,000 (equivalent to approximately
HK\$32,760,000) |

- | | | | |
|-----|--------|-------------------------------------|---|
| | (v) | Registered capital: | US\$2,200,000 (equivalent to approximately HK\$17,160,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 12 years, from 27 June 2002 to 26 June 2014 |
| | (viii) | Scope of business: | Production and sale of yarn, grey fabric and printed and dyed fabric |
| | (ix) | Legal representative: | Hong Tianzhu |
| (c) | (i) | Name of the enterprise: | 泰州世紀天虹紡織有限公司
Taizhou Century Texhong Textile Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$20,000,000 (equivalent to approximately HK\$156,000,000) |
| | (v) | Registered capital: | US\$9,000,000 (equivalent to approximately HK\$70,200,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 15 years, from 23 April 2002 to 22 April 2017 |
| | (viii) | Scope of business: | Production and sale of high-ended garment fabric and special textile for project use; finishing and sale of products produced by domestic enterprises |
| | (ix) | Legal representative: | Sha Tao |
| (d) | (i) | Name of the enterprise: | 泰州天虹織造有限公司
Taizhou Texhong Weaving Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered shareholders: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$4,000,000 (equivalent to approximately HK\$31,200,000) |

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| | (v) | Registered capital: | US\$2,100,000 (equivalent to approximately HK\$16,380,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 15 years, from 15 November 2000 to 14 November 2015 |
| | (viii) | Scope of business: | Production of special textile for industrial use, high-ended blended garment fabric; finishing and sale of products produced by domestic enterprises |
| | (ix) | Legal representative: | Sha Tao |
| (e) | (i) | Name of the enterprise: | 天虹紡織(泰州)有限公司
Texhong Textile (Taizhou) Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered shareholders: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$200,000 (equivalent to approximately HK\$1,560,000) |
| | (v) | Registered capital: | US\$155,000 (equivalent to approximately HK\$1,209,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 13 years, from 20 October 1997 to 19 October 2010 |
| | (viii) | Scope of business: | Production of yarn grey fabric; sale of products produced by domestic enterprises |
| | (ix) | Legal representative: | Hong Tianzhu |
| (f) | (i) | Name of the enterprise: | 天虹紡織(金華)有限公司
Texhong Textile (Jinhua) Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$500,000 (equivalent to approximately HK\$3,900,000) |

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| | (v) | Registered capital: | US\$350,000 (equivalent to approximately HK\$2,730,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 13 years, from 4 January 1998 to 3 January 2011 |
| | (viii) | Scope of business: | Sale of yarn, grey fabric, garment fabric and garment (all licensed operations involving permission and special item review) |
| | (ix) | Legal representative: | Gong Zhao |
| (g) | (i) | Name of the enterprise: | 天虹紡織(睢寧)有限公司
Texhong Textile (Suining) Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$200,000 (equivalent to approximately HK\$1,560,000) |
| | (v) | Registered capital: | US\$150,000 (equivalent to approximately HK\$1,170,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 14 years, from 26 June 1998 to 26 June 2012 |
| | (viii) | Scope of business: | Production of yarn, grey fabric, printed and dyed fabric and garment |
| | (ix) | Legal representative: | Tang Daoping |
| (h) | (i) | Name of the enterprise: | 徐州世紀天虹紡織有限公司
Xuzhou Century Texhong Textile Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$700,000 (equivalent to approximately HK\$5,460,000) |

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| | (v) | Registered capital: | US\$500,000 (equivalent to approximately HK\$3,900,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 10 years, from 13 January 2003 to 12 January 2013 |
| | (viii) | Scope of business: | Production and sale of high-ended fancy yarn and high-ended garment fabric |
| | (ix) | Legal representative: | Tang Daoping |
| (i) | (i) | Name of the enterprise: | 徐州天虹銀豐紡織有限公司
Xuzhou Texhong Yinfeng Textile Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$4,200,000 (equivalent to approximately HK\$32,760,000) |
| | (v) | Registered capital: | US\$2,100,000 (equivalent to approximately HK\$16,380,000) (fully paid-up) |
| | (vi) | Attributable interest to the Group: | 100% |
| | (vii) | Term: | 10 years, from 30 April 2004 to 29 April 2014 |
| | (viii) | Scope of business: | Production and sale of yarn, grey fabric, knitwear, garment and printing and dyeing products |
| | (ix) | Legal representative: | Tang Daoping |
| (j) | (i) | Name of the enterprise: | 浙江世紀天虹紡織有限公司
Zhejiang Century Texhong Textile Co., Ltd. |
| | (ii) | Economic nature: | wholly foreign-owned enterprise |
| | (iii) | Registered owner: | Texhong Textile Holdings Limited |
| | (iv) | Total investment: | US\$5,300,000 (equivalent to approximately HK\$41,340,000) |

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| (v) | Registered capital: | US\$2,650,000 (equivalent to approximately HK\$20,670,000) (fully paid-up) |
| (vi) | Attributable interest to the Group: | 100% |
| (vii) | Term: | 13 years, from 10 May 2002 to 9 May 2015 |
| (viii) | Scope of business: | Preparation of high-ended garment fabric and non-flammable weaving (except dyed) items (all operations involving permissions and special item review) |
| (ix) | Legal representative: | Gong Zhao |
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| (i) | Name of the enterprise: | 浙江天虹紡織有限公司
Zhejiang Texhong Textile Co., Ltd. |
| (ii) | Economic nature: | wholly foreign-owned enterprise |
| (iii) | Registered owner: | Texhong Textile Holdings Limited |
| (iv) | Total investment: | US\$6,700,000 (equivalent to approximately HK\$52,260,000) |
| (v) | Registered capital: | US\$3,350,000 (equivalent to approximately HK\$26,130,000) (fully paid-up) |
| (vi) | Attributable interest to the Group: | 100% |
| (vii) | Term: | 12 years, from 18 May 2000 to 17 May 2012 |
| (viii) | Scope of business: | Production of special textile for industrial use, high-ended grey fabric and garment fabric (all operations involving permissions and special item review) |
| (ix) | Legal representative: | Gong Zhao |

- (l) (i) Name of the enterprise: 南通天虹銀海實業有限公司
Nantong Texhong Yinhai Industrial Co., Ltd.
- (ii) Economic nature: wholly foreign-owned enterprise
- (iii) Registered owner: Texhong Textile Holdings Limited
- (iv) Total investment: US\$700,000 (equivalent to approximately HK\$5,460,000)
- (v) Registered capital: US\$500,000 (equivalent to approximately HK\$3,900,000) (fully paid-up)
- (vi) Attributable interest to the Group: 100%
- (vii) Term: 10 years, 20 May 2004 from 19 May 2014
- (viii) Scope of business: Production and sale of all types of garment, knitwear and yarn
- (ix) Legal representative: Hong Tianzhu

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

11. Directors

(a) *Disclosure of interests of directors*

- (i) Mr. Hong, Messrs. Zhu Yongxiang, Tang Daoping and Gong Zhao are interested in the corporate reorganisation referred to in paragraph 4 of this Appendix.
- (ii) Save as disclosed in this prospectus, none of the Directors or their associates (as defined in the Listing Rules) were engaged in any dealings with the Group during the two years preceding the date of this prospectus.

(b) *Particulars of service contracts*

Each of Mr. Hong, Messrs. Zhu Yongxiang, Tang Daoping and Gong Zhao, being all the executive Directors, has entered into a service contract with the Company for an initial term of 36 months commencing from 21 November 2004, and will continue thereafter for successive terms of one year until terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or at any time thereafter. Each of these executive Directors

is entitled to a basic salary subject to an annual increment after 31 December 2004 at the discretion of the Directors of not more than 15% of the annual salary immediately prior to such increase. In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 5% of the audited combined or consolidated audited net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Annual salary (HK\$)
Mr. Hong	960,000
Mr. Zhu Yongxiang	720,000
Mr. Tang Daoping	360,000
Mr. Gong Zhao	360,000

Each of Messrs. Ting Leung Huel Stephen, Cheng Longdi and Zhu Lanfen has been appointed as an independent non-executive Director for an initial term of one year commencing from 21 November 2004 renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by either the independent non-executive Director or the Company expiring at the end of the initial term or at any time thereafter. The Company intends to pay a director's fee of HK\$48,000 per annum to each of Ms. Zhu Lanfen and Professor Cheng Longdi and HK\$144,000 per annum to Mr. Ting Leung Huel Stephen. Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors' remuneration

- (i) During the year ended 31 December 2003, the aggregate emoluments paid by the Group to the Directors was approximately RMB324,000, (equivalent to approximately HK\$306,600). Details of the Directors remuneration are set out in Note 10 to paragraph I of the accountants' report set out in Appendix I to this prospectus.

- (ii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors (including the independent non-executive Directors) for the year ending 31 December 2004 are estimated to be approximately HK\$329,000 (equivalent to approximately RMB349,000).
- (iii) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December 2003 as (i) an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2003.
- (d) *Interests and short positions of Directors in the Shares, underlying shares or debentures of the Company and its associated corporations*

Immediately following the completion of the Share Offer and the Capitalisation Issue, the interests and short positions of the Directors in the Share, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to once the Shares are listed, will be as follows:

Name	Name of Group member/associated corporation	Nature of interest	Number of Shares
Mr. Hong	the Company	Interest of controlled corporation	555,900,000 Shares (L) (Note 1)
	New Green Group Limited	Interest of controlled corporation	1 Ordinary share of US\$1
	Hong Kong Tin Hong	Beneficial owner	100,000 shares of HK\$1 each
	Trade Partner Investments Limited	Beneficial owner	5,064 ordinary shares of US\$1 each

Name	Name of Group member/associated corporation	Nature of interest	Number of Shares
Mr. Zhu Yongxiang	The Company	Interest of two controlled corporations	248,520,000 Shares (L) (Note 2)
	Trade Partner Investments Limited	Beneficial owner	4,136 ordinary shares of US\$1 each
	Wisdom Grace Investments Limited	Beneficial owner	1 ordinary share of US\$1

Notes:

1. Among these 555,900,000 Shares, as to 392,400,000 Shares will be registered in the name of and beneficially owned by New Green Group Limited, the entire issued share capital of which is beneficially owned by Hong Kong Tin Hong, a company 100% owned by Mr. Hong and as to 163,500,000 Shares will be registered in the name of and beneficially owned by Trade Partner Investments Limited, the issued share capital of which is owned as to 50.64% by Mr. Hong. Under the SFO, Mr. Hong is deemed to be interested in all the Shares held by New Green Group Limited and Trade Partner Investments Limited.
2. Among these 248,520,000 Shares, as to 163,500,000 Shares will be registered in the name of and beneficially owned by Trade Partner Investments Limited, the issued share capital of which is beneficially owned as to 41.36% by Mr. Zhu Yongxiang and as to 85,020,000 Shares will be registered in the name of and beneficially owned by Wisdom Grace Investments Limited, the entire issued share capital of which is owned by Mr. Zhu Yongxiang. Under the SFO, Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Trade Partner Investments Limited and Wisdom Grace Investments Limited.

(e) Agency fees or commissions received

The Underwriters will receive a commission of 2.5% of the Offer Price per Offer Share in respect of all the Offer Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Share Offer, which are estimated to amount in aggregate to approximately HK\$21.6 million, will be payable as to 80% or approximately HK\$17.3 million by the Company and as to 20% or approximately HK\$4.3 million by the Vendors.

12. Interest disclosable under the SFO and substantial shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking account of any Shares which may be taken up under the Share Offer and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons will have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the S&F Ordinance and who will be expected, directly or indirectly, to be interested in 10% or more of the Shares:

	Name	Nature of interest	Number of Shares	Approximate percentage of shareholding (Note 7)
1.	New Green Group Limited (Note 2)	Beneficial owner	392,400,000 Shares (L)	45%
2.	Trade Partner Investments Limited (Note 3)	Beneficial owner	163,500,000 Shares (L)	18.75%
3.	Wisdom Grace Investments Limited (Note 4)	Beneficial owner	85,020,000 Shares (L)	9.75%
4.	Hong Kong Tin Hong (Note 2)	Interest of controlled corporations	392,400,000 Shares (L)	45%
5.	Mr. Hong (Notes 2 and 3)	Interest of controlled corporations	555,900,000 Shares (L)	63.75%
6.	Ms. Ke Luping (Note 5)	Interest of spouse	555,900,000 Shares (L)	63.75%
7.	Mr. Zhu Yongxiang (Notes 3 and 4)	Interest of two controlled corporation	248,520,000 Shares (L)	28.50%
8.	Ms. Zhao Ziyang (Note 6)	Interest of spouse	248,520,000 Shares (L)	28.50%

Notes:

1. The Letter "L" denotes the person's long position in the Shares.
2. These Shares will be registered in the name of and beneficially owned by New Green Group Limited, the entire issued share capital of which is beneficially owned by Hong Kong Tin Hong, a company 100% beneficially owned by Mr. Hong. Under the SFO, Mr. Hong is deemed to be interested in all the Shares held by New Green Group Limited.

3. The 163,500,000 Shares will be registered in the name of and beneficially owned by Trade Partner Investments Limited, the entire issued share capital of which is beneficially owned as to 50.64% by Mr. Hong, 41.36% by Mr. Zhu Yongxiang, 2.24%, 1.68%, 1.68%, 1.68%, 0.36% and 0.36% by Mr. Sha Tao, Mr. Tang Daoping, Mr. Gong Zhao, Mr. Hu Zhiping, Mr. Yin Jianhua and Mr. Zhang Chuanmin. Under the SFO, each of Mr. Hong and Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Trade Partner Investments Limited.
4. The 85,020,000 Shares will be registered in the name of and beneficially owned by Wisdom Grace Investments Limited, the entire issued share capital of which is beneficially owned by Mr. Zhu Yongxiang. Under the SFO, Mr. Zhu Yongxiang is deemed to be interested in all the Shares held by Wisdom Grace Investments Limited.
5. Ms. Ke Luping is the spouse of Mr. Hong. By virtue of section 316(1) of the SFO, Ms. Ke Luping is taken to be interested in the same number of the Shares in which Mr. Hong are interested.
6. Ms. Zhao Ziyang is the spouse of Mr. Zhu Yongxiang. By virtue of section 316(1) of the SFO, Ms. Zhao Ziyang is taken to be interested in the same number of the Shares in which Mr. Zhu Yongxiang is interested.
7. The percentage is calculated on the basis of 872,000,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account of any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option, the exercise of the options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme.

13. Related party transactions

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

- (a) note 30 to section I of the accountants' report set out in Appendix I to this prospectus;
- (b) paragraph 4 of this Appendix; and
- (c) the connected transactions set out in the paragraph headed "Continuing Connected Transactions" under the section headed "Business" in this prospectus.

14. Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Share Offer or upon the exercise of the Over-allotment Option or the options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Share Offer and the Capitalisation Issue hold either directly or indirectly, or be beneficially interested in Shares representing 10% or more of the Company in issue and to be issued as mentioned in this prospectus;

- (ii) none of the Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the Shares or underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 352 of the SFO or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed on the Main Board;
- (iii) none of the Directors or the experts named in paragraph 21 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of the Directors or the experts named in paragraph 21 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 21 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

OTHER INFORMATION

15. Share Option Schemes

(A) Pre-IPO Share Option Scheme*(a) Summary of terms*

The following is a summary of the principal terms of the Pre-IPO Share Option Scheme adopted by a resolution in writing by all Shareholders on 21 November 2004:

(i) Purpose of the scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors, senior management, employees, consultants and advisers of the Group to the growth and development of the Group and the listing of the Shares on the Main Board. The principal terms of the Pre-IPO Share Option Scheme adopted by a resolution in writing passed by all the Shareholders on 21 November 2004 are similar to the terms of the Share Option Scheme except that:

- (i) the classes of eligible participants are different from that provided in paragraph 15(B)(a)(ii);
- (ii) the general scheme limit, the individual limit applicable to each proposed grantee and the restrictions on grant of options to a connected person as referred to in paragraphs 15(B)(a)(iii)(bb), 15(B)(a)(iv) and 15(B)(a)(v) respectively, do not apply;
- (iii) the rules of the Pre-IPO Share Option Scheme were adopted unconditionally by a resolution in writing passed by all the Shareholders on 21 November 2004, but the exercise of any option is conditional on the Stock Exchange granting listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme on or before 30 days after the date of this prospectus, failing which such options granted and the Pre-IPO Share Option Scheme shall forthwith lapse; and
- (iv) the Directors may only grant options under the Pre-IPO Share Option Scheme at any time within a period commencing from 21 November, 2004 and ending on 9:00 a.m. on the Listing Date.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

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

(b) Outstanding options granted under the Pre-IPO Share Option Scheme

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

Name of grantees (relations with our Group) (Note 1)	Residential address of grantees	Period during which the options remain exercisable (Note 2)	Exercise price per Share (HK\$)	Number of underlying Shares under the options (Note 2)	Approximate percentage of shareholding held upon exercise of all the options (Note 3)
Zhang Chuanmin	Room 202, 2nd Floor Building No. 2, Ji Fa Yuan Hostel, Huai Hai Xi Lu Extension Xuzhou City, Jiangsu Province, the PRC	three years months after the Listing Date	0.69	1,200,000	0.137%
Sha Tao	No. 5-902 Du Shi Hua Cheng, Da Qing Street, Nantong City, Jiangsu Province, the PRC	three years commencing from and including the date falling six months after the Listing Date	0.69	1,158,000	0.132%
Hu Zhiping	Room 402, No. 78 Xin Jiang Nan Hua Yuan, Wuxi City, Jiangsu Province, the PRC	three years commencing from and including the date falling six months after the Listing Date	0.69	1,158,000	0.132%
Yin Jianhua	Room 302, Building No. 25, Mei Jian Nan Cun, Xuzhou City, Jiangsu Province, the PRC	three years commencing from and including the date falling six months after the Listing Date	0.69	826,000	0.094%

Notes:

1. These options are granted to the grantees named above on the basis that each of them is a senior management of the Group, who has contributed and will contribute to the growth and development of the Group and the listing of the Shares on the Main Board. Set out below is the date of joining of the Group by each of the grantees under the Pre-IPO Share Option Scheme and their respective roles with the Group:
 - (a) Mr. Zhang Chuanmin joined the Group on 5 August 2001 and is a general manager of the financial management department of the Group. Mr. Zhang Chuanmin is in charge of the financial management and accounting functions of the 12 subsidiaries of the Group.
 - (b) Mr. Sha Tao joined the Group on 28 February 1998 and is the vice president of the Group. He is also the managing director of Taizhou Texhong Weaving and Taizhou Century Texhong. Mr. Sha Tao is in charge of the daily operations of Taizhou Texhong Weaving and Taizhou Century Texhong.
 - (c) Mr. Hu Zhiping joined the Group on 2 February 1998 and is a vice president of the Group. He is also the general manager of the grey fabrics sales department of the Group. Mr. Hu Zhiping is in charge of the marketing and sales of the Group's grey fabric products.
 - (d) Mr. Yin Jianhua joined the Group on 23 August 2002 and is a vice president of the Group. He is also the general manager of the yarn sales department of the Group. Mr. Yin Jianhua is in charge of the marketing and sales of the Group's yarn products.
2. During the first one year and the first two years of the exercise period, each grantee may not exercise his option exceeding one-third and two-thirds respectively of the total number of underlying Shares in respect of the options granted to him.
3. These percentages are calculated on the basis of 876,342,000 Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (as enlarged by the exercise in full of all the options granted under the Pre-IPO Share Option Scheme) but does not take in account any Share which may fall to be allotted and issued upon exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme and assuming that all the options granted under the Pre-IPO Share Option Scheme are exercised in full at the same time. On such basis and upon exercise in full of the outstanding options granted under the Pre-IPO Share Option Scheme, the total shareholding of the then existing shareholders will be diluted by a total of approximately 0.5%.
4. The forecast earnings per Share on pro-forma fully diluted basis is HK13.99 cents which is calculated by dividing the forecast combined profit taxation but before extraordinary items of the Group for the year ending 31 December 2004 by the total of 876,342,000 Shares assuming that the Shares in issue at the date of this Prospectus and those Shares to be issued pursuant to the Capitalisation issue and the Share Offer had been in issue on 1 January 2004 (but without taking into account for any Shares which may be issued under the Over-allotment Option) and the options granted under the Pre-IPO Share Option Scheme were exercised in full on 1 January 2004. It is also assumed that all Shares falling to be issued pursuant to the options granted under the Pre-IPO Share Option Scheme were issued at no consideration. This has not taken into account the proceeds that will be received upon the exercise of the options granted under the Pre-IPO Share Option Scheme and hence has not considered the impact of fair value of the Shares on the computation of number of dilutive potential Shares. The Directors consider it is impracticable to estimate the fair value of the Shares prior to its listing.

(B) Share Option Schemes**(a) Summary of terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on 21 November 2004:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

The Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity ("**Invested Entity**") in which the Group holds any equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of any member of the Group or any Invested Entity;

- (ee) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity;
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of the Group,

and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' option as to his contribution to the development and growth of the Group.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme, the Pre-IPO Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme, the Pre-IPO Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on the Main Board ("**General Scheme Limit**"). On the basis of a total of 872,000,000 Shares in issue as at the Listing Date (including those Shares to be issued pursuant

to the Capitalisation Issue and the New Issue but without taking account for any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any options which have been granted or may be granted under the Pre-IPO Share Option Scheme and/or Share Option Scheme), the General Scheme Limit will be 87.2 million Shares.

- (cc) Subject to (aa) above but without prejudice to (dd) below, the Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted. The circular sent by the Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (dd) Subject to (aa) above and without prejudice to (cc) above, the Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought. In such event, the Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the

shareholders' approval in general meeting of the Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to connected persons

- (aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined under the Listing Rules) must be approved by independent non-executive Directors (excluding independent non-executive director who is the grantee of the options).
- (bb) Where any grant of options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders in general meeting. The Company must send a circular to the Shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

- (aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank pari passu in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members ("**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of the Company as the holder thereof.

(bb) Unless the context otherwise requires, references to “**Shares**” in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of the Directors for the approval of the Company’s results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the last date on which the Company must publish its an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of the Company, any of its subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of the Group by reason of the cessation of its relations with the Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and the Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of the Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after

the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of the Directors.

When the Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

The Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi); and
- (bb) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

(xxiv) Others

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

16. Estate duty, tax indemnities and other indemnities

Each of Mr. Hong, Hong Kong Tin Hong and New Green Group Limited (collectively, the “Indemnifiers”) has pursuant to a deed of indemnity entered into with the Company

(for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8(o) of this Appendix) given indemnities to the Group in connection with, among other matters, any estate duty which is or becomes payable by any member of the Group by the operation of the Estate Duty Ordinance or any law of equivalent effect of other relevant jurisdiction as a result or in consequence of any event or transaction occurring on or before the date on which the Share Offer becomes unconditional ("Effective Date").

Under the deed of indemnity, the Indemnifiers have also given indemnities to the Group in relation to taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Effective Date.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the Cayman Islands and the PRC.

The Indemnifiers shall be under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of the Group for the three financial years ended 31 December 2003 and five months ended 31 May 2004; or
- (b) to such taxation falling on any member of the Group in respect of any accounting period commencing on or after the Effective Date unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date or pursuant to any statement of intention made in this prospectus; or
 - (iii) consisting of any member of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation.
- (c) to the extent of any provisions or reserve made for taxation in the audited accounts of any member of the Group up to 31 May 2004 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied referred to in paragraphs (a)

and (b) above to reduce the Indemnifiers' liability (if any) in respect of taxation shall not be available in respect of any such liability arising thereafter; and

- (d) where such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice coming into force after the Effective Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after such date with retrospective effect.

Under the deed of indemnity, the Indemnifiers have also undertaken irrevocably to each member of the Group that it will indemnify and at all times keep the members of the Group fully indemnified on demand from and against all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with:

- (a) any non-compliance or alleged non-compliance by any member of the Group with any applicable PRC rules, regulations and laws in relation to social insurance on or before the Effective Date;
- (b) the failure of the landlord of the premises at unit 1708, No. 159 Zhongshan Road, Wuxi City, Jiangsu Province, PRC ("Wuxi Premises") to obtain a building ownership certificate in respect of the Wuxi Premises which are leased to the Wuxi branch of Jiangsu Century Texhong;
- (c) the failure of the landlord of the land located at 104 National Highway, Taoyuan Town, Suining County, Xuzhou, Jiangsu Province ("Suining Premises") to register the agreement for the leasing of the Suining Premises to Jiangsu Century Texhong with the relevant PRC authorities;
- (d) the relocation of any of the Group's leased properties; and
- (e) the breach by Texhong Textile Taizhou of the applicable PRC laws and regulations by reason of requiring its workforce to undertake overtime work in excess of the prescribed statutory time limit pursuant to a letter (勞動監察限期改正指令書) dated 11 March 2004 issued by 泰州市海陵區勞動局 (Labour and Social Security Bureau of Hailing District, Taizhou City),

including, but not limited to, any penalty that may be imposed on any member of the Group by the relevant PRC authorities as a result of or in connection with the non-compliance set out in paragraphs (a) to (c) and (e) above.

17. Litigation

On 5 March 2004, Jiangxu Century Texhong and a US cotton supplier ("Applicant") entered into two sale and purchase agreements ("Relevant Contracts") for the purchase of an aggregate of 1,000 tonnes of cotton by Jianxu Century Texhong from the Applicant.

In or about September 2004, the Applicant commenced an arbitration proceedings by making an application to China International Economic and Trade Arbitration Commission, Shanghai Commission ("CIETAC") arising from disputes over the Relevant Contracts. It was alleged by the Applicant that Jiangsu Century Texhong failed to issue the letters of credit pursuant to the terms of the Relevant Contracts, and claimed from Jiangsu Century Texhong for (i) US\$762,908.76, being the economical loss incurred; (ii) US\$70,000, being the legal fees payable by Applicants for the arbitration; and (iii) the arbitration fees and all other expenses incurred by the Applicant in relation to this arbitration.

Jiangsu Century Texhong refused to issue the letters of credit pursuant to the terms of the Relevant Contracts for the quality and the quantity of the cotton delivered by the Applicant in the previous dealings failed to comply with the specifications of Jiangsu Century Texhong. The Group considers that it has a valid defence of anticipated breach against the claim and has been contesting the proceedings. A hearing of the above dispute has been scheduled on 3 December 2004 by the CIETAC.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

18. Sponsor

The Sponsor has made an application for and on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of any option which has been granted under the Pre-IPO Share Option Scheme, or any Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme on the Main Board.

19. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$2,650 (equivalent to HK\$20,670) and are payable by the Company.

20. Promoter

- (a) The promoter of the Company is Mr. Hong.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in sub-paragraph 20(a) above in connection with the Share Offer or the related transactions described in this prospectus.

21. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Goldbond Capital (Asia) Limited	A licenced corporation in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Conyers Dill & Pearman, Cayman	Cayman Islands barristers and attorneys

Name	Qualification
PricewaterhouseCoopers	Certified Public Accountants
Jun He Law Offices	Licensed PRC legal advisers
DTZ Debenham Tie Leung Limited	Property valuer

22. Consents of experts

Each of Goldbond Capital (Asia) Limited, Conyers Dill & Pearman, Cayman, PricewaterhouseCoopers, Jun He Law Offices and DTZ Debenham Tie Leung Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

23. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

24. Taxation of holders of Shares

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Vendors, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

25. Miscellaneous

- (a) Save as disclosed herein:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in the Company or any of its subsidiaries;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) there has been no material adverse change in the financial position or prospects of the Group since 31 May 2004 (being the date to which the latest audited combined financial statements of the Group were made up); and
 - (iv) there has not been any interruption in the business of the Group which has had a material adverse effect on the financial position of the Group in the 24 months preceding the date of this prospectus.
- (b) The Company has no founder shares, management shares or deferred shares.
- (c) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Butterfield Bank (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

26. Particulars of the Vendors

Name	Number of Sale Shares	Description	Address
New Green Group Limited (Note 1)	26,160,000	corporation	the offices of Offshore Incorporations Limited, P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Trade Partner Investments Limited (Note 2)	10,900,000	corporation	the offices of Offshore Incorporations Limited, P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Wisdom Grace Investments Limited (Note 3)	5,668,000	corporation	the offices of Offshore Incorporations Limited, P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Flourish City Investments Limited (Note 4)	872,000	corporation	the offices of Offshore Incorporations Limited, P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Notes:

1. New Green Group Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Hong Kong Tin Hong. Hong Kong Tin Hong is a company incorporated in Hong Kong, the entire issued share capital of which is beneficially owned by Mr. Hong.
2. Trade Partner Investments Limited is a company incorporated in the BVI, the entire issued share capital of which is owned as to 50.64% by Mr. Hong, 41.36% by Mr. Zhu Yongxiang, 2.24% by Mr. Sha Tao, 1.68% by each of Mr. Tang Daoping, Mr. Gong Zhao and Mr. Hu Zhiping and 0.36% by each of Mr. Yin Jianhua and Mr. Zhang Chuanmin.
3. Wisdom Grace Investments Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Zhu Yongxiang.
4. Flourish City Investments Limited is a company incorporated in the BVI, the entire issued share capital of which is beneficially owned by Mr. Hong Xinbei and Mr. Hong Zhiliang equally.

Save as disclosed herein, none of the Directors is interested in the Sale Shares.