天虹紡織集團有限公司

TEXHONG TEXTILE GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2005

CORPORATE INFORMATION

EXECUTIVE DIRECTORS
Mr. Hong Tianzhu *(Chairman)*
Mr. Zhu Yongxiang
Mr. Tang Daoping
Mr. Gong Zhao

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE
Mr. Ting Leung Huel, Stephen
MH FCCA FCPA (Practising)
FTIHK FHKIoD
Ms. Zhu Lanfen
Professor Cheng Longdi

REMUNERATION COMMITTEE
Mr. Ting Leung Huel, Stephen
MH FCCA FCPA (Practising)
FTIHK FHKIoD
Mr. Hong Tianzhu
Ms. Zhu Lanfen
Professor Cheng Longdi

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Mr. Shu Wa Tung, Laurence

AUTHORISED REPRESENTATIVES
Mr. Hong Tianzhu
Mr. Shu Wa Tung, Laurence

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PRINCIPAL BANKERS
Agricultural Bank of China
Bank of China
China Construction Bank
Bank of Communications
Industrial and Commercial Bank of China
Citic Industrial Bank

AUDITORS
PricewaterhouseCoopers

LEGAL ADVISORS AS TO HONG KONG LAW
Chiu & Partners

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Bank (Cayman) Limited
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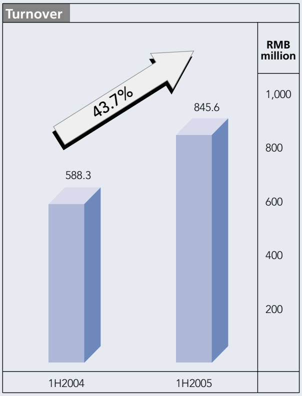
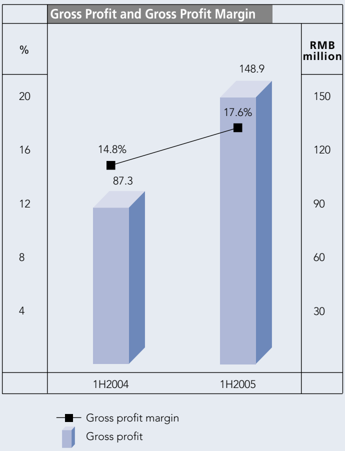
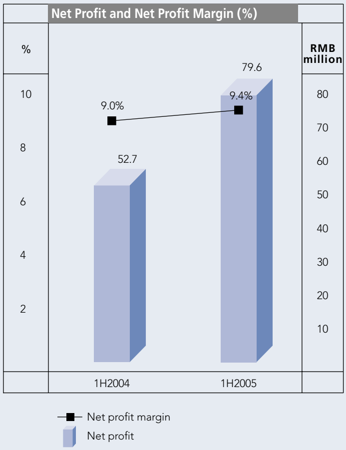
FINANCIAL HIGHLIGHTS







CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2005 Unaudited RMB'000	As at 31 December 2004 Restated RMB'000
ASSETS			
Non-current assets			
Negative goodwill	6	–	(9,020)
Property, plant and equipment	7	404,768	352,745
Land use rights	7	44,808	45,067
Total non-current assets		449,576	388,792
Current assets			
Inventories		248,023	164,385
Trade and bills receivables	8	178,821	132,008
Prepayments, deposits and other receivables	9	70,270	26,974
Pledged bank deposits		68,310	7,114
Bank balances and cash		143,378	247,245
Total current assets		708,802	577,726
Current liabilities			
Trade and bills payables	12	108,271	65,535
Accruals and other payables	13	75,325	63,119
Bank loans	14	300,900	227,932
Current income tax liabilities		4,751	6,269
Due to related parties		–	25,000
Total current liabilities		489,247	387,855

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June	31 December
		2005	2004
		Unaudited	Restated
	Note	***RMB'000***	*RMB'000*
Net current assets		**219,555**	189,871
Total assets less current liabilities		**669,131**	578,663
Non-current liabilities			
Deferred income tax liabilities		**11,878**	12,012
Net assets		**657,253**	566,651
Financed by:			
Share capital	*10*	**92,842**	92,842
Other reserves	*11*	**412,716**	408,607
Retained earnings		**151,695**	65,202
Total equity		**657,253**	566,651

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2005 RMB'000	2004 RMB'000
Turnover	15	**845,623**	588,319
Cost of sales		**(696,744)**	(501,006)
Gross profit		**148,879**	87,313
Other revenue	15	**3,934**	5,189
Selling and distribution expenses		**(19,773)**	(10,895)
General and administrative expenses		**(35,654)**	(17,140)
Operating profit		**97,386**	64,467
Finance costs	17	**(8,179)**	(5,772)
Profit before taxation		**89,207**	58,695
Taxation	18	**(9,560)**	(5,957)
Profit attributable to equity holders of the Company		**79,647**	52,738
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
– basic	19	**0.091**	0.076
– diluted	19	**0.091**	N/A
Dividends		**–**	15,874

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited			
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2004		74,273	80,212	136,423	290,908
Profit for the period		–	–	52,738	52,738
Capital injection into subsidiaries before Reorganisation		–	6,749	–	6,749
Transfer to statutory reserves		–	1,819	(1,819)	–
Dividend relating to 2003		–	–	(15,874)	(15,874)
Surplus on revaluation of land and buildings					
– Gross		–	111,855	–	111,855
– Deferred tax		–	(28,626)	–	(28,626)
Balance at 30 June 2004		74,273	172,009	171,468	417,750
Reversal of revaluation reserve (net of deferred tax) and decrease in expenses in respect of land use rights		–	(52,471)	–	(52,471)
Balance at 30 June 2004, as restated		74,273	119,538	171,468	365,279
Balance at 31 December 2004, as previously reported		92,842	461,078	64,842	618,762
Reversal of revaluation reserve (net of deferred tax) and decrease in expenses in respect of land use rights	*3(a)(i)*	–	(52,471)	360	(52,111)
Balance at 31 December 2004, as restated		92,842	408,607	65,202	566,651
Balance at 1 January 2005, as above		**92,842**	**408,607**	**65,202**	**566,651**
Opening adjustment for the adoption of HKFRS 3	*3(a)(iii)*	–	–	9,020	9,020
Balance at 1 January 2005, as restated		**92,842**	**408,607**	**74,222**	**575,671**
Profit for the period		–	–	79,647	79,647
Employee share option scheme – value of employee services	*3(a)(ii)*	–	1,935	–	1,935
Transfer to statutory reserves		–	2,174	(2,174)	–
Balance at 30 June 2005		**92,842**	**412,716**	**151,695**	**657,253**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 June	
	2005	2004
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(42,065)**	61,640
Net cash used in investing activities	**(121,425)**	(58,340)
Net cash generated from financing activities	**59,623**	19,907
Net (decrease)/increase in bank balances and cash	**(103,867)**	23,207
Bank balances and cash at 1 January	**247,245**	38,077
Bank balances and cash at 30 June	**143,378**	61,284

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") since 9 December 2004.

On 21 November 2004, the Company acquired the entire issued share capital of Texhong Textile Holdings Limited ("Texhong BVI"), a company incorporated in the British Virgin Islands, through a share exchange (the "Reorganisation") and consequently became the holding company of its subsidiaries.

The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial information of the Group for the six months ended 30 June 2005 presents the results and the state of affairs of the Group as if the Group resulting from the Reorganisation had been in existence from the beginning of 1 January 2004.

2. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/ revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those new HKFRS standards and interpretations issued and effective as at the time of preparing this information. The new HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

3. Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at fair value.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 21 November 2004 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for negative goodwill. Until 31 December 2004, negative goodwill was recognised in the income statement over a period of 10 years. In accordance with the provisions of HKFRS 3, the Group ceased amortisation of negative goodwill from 1 January 2005, and derecognised the carrying amount of negative goodwill at 1 January 2005, with a corresponding adjustment to the opening balance of retained earnings.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKFRS 2 – only retrospective application for all equity instruments granted after 21 November 2004 and not vested at 1 January 2005; and

- HKFRS 3 – prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1 January 2004 by RMB Nil.

	As at	
	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**113,654**	114,666
Increase in land use rights	**44,808**	45,067
Decrease in revaluation reserves	**52,471**	52,471
Decrease in deferred tax liabilities	**17,392**	17,488

	For the year ended	**For the six months ended**	
	31 December 2004	**30 June 2005**	30 June 2004
	RMB'000	***RMB'000***	*RMB'000*
Decrease in administrative expenses	377	**753**	–
Increase in taxation expenses	17	**96**	–
Increase in basic earnings per share	–	**–**	–
Increase in diluted earnings per share	–	**–**	–

(ii) The adoption of HKFRS 2 resulted in:

	As at 30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Increase in share premium	**1,935**	–
Decrease in retained earnings	**1,935**	–

	For the year ended 31 December 2004 *RMB'000*	**For the six months ended 30 June 2005** *RMB'000*	For the six months ended 30 June 2004 *RMB'000*
Increase in general and administrative expense	–	**1,935**	–
Decrease in basic earnings per share	–	**–**	–
Decrease in diluted earnings per share	–	**–**	–

(iii) The adoption of HKFRS 3, HKAS 36 and HKAS 38 resulted in:

	As at 30 June 2005 *RMB'000*
Decrease in negative goodwill	**8,391**
Increase in retained earnings	**8,391**

	For the six months ended 30 June 2005 *RMB'000*
Decrease in general and administrative expense	**629**
Increase in basic earnings per share	**–**
Increase in diluted earnings per share	**–**

(b) *New accounting policies*

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

(i) Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

(ii) Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

(iii) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(iv) Property, plant and equipment

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(v) Accounts receivables

Accounts receivable are recognised initially at fair value, generally equivalent to the original invoice amounts, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(vi) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(vii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

4. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

(i) Foreign exchange risk

The Group mainly operates in the Mainland China and exports its products to Europe. Most of the Group's transactions, assets and liabilities are dominated in RMB or United States Dollars ("USD"). RMB is not freely convertible into other foreign currencies.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group manages its foreign exchange risks by performing regular review and monitoring its foreign exchange exposures.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's bank borrowings have been disclosed in Note 14 of this section.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group has also policies that limit the amount of credit exposure to any financial institution.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated provision for doubtful debts

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

6. Negative goodwill

Movements were:

	Negative goodwill *RMB'000*
Balances at 1 January 2004	(10,278)
Amortisation for the period *(Note 16)*	629
Balances at 30 June 2004	(9,649)
Amortisation for the period	629
Balances at 31 December 2004	(9,020)
Opening adjustment for adoption of HKFRS 3	9,020
Balances at 1 January 2005, as restated	–
Balances at 30 June 2005	**–**

7. Capital expenditure

	Property, plant & equipment *RMB'000*	Land use rights *RMB'000*
Opening net book amount as at 1 January 2005	352,745	45,067
Additions	69,968	–
Disposals	(345)	–
Depreciation/amortisation charge *(Note 16)*	(17,600)	(259)
Closing net book amount as at 30 June 2005	404,768	44,808
Opening net book amount as at 1 January 2004	266,315	32,125
Additions	52,105	13,345
Revaluation *(Notes 11)*	41,879	–
Disposals	(119)	–
Depreciation/amortisation charge *(Note 16)*	(12,546)	(240)
Closing net book amount as at 30 June 2004	347,634	45,230
Additions	16,125	65
Revaluation *(Notes 11)*	4,030	–
Disposals	(515)	–
Depreciation/amortisation charge	(14,529)	(228)
Closing net book amount as at 31 December 2004	352,745	45,067

8. Trade and bills receivables

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
Trade receivables	**126,737**	108,838
Bills receivable	**52,084**	23,170
	178,821	132,008

Note:

(i) The Group's customers are generally required to settle sales invoices within 90 days from the invoice dates. The ageing analysis of the trade and bills receivables (including amounts due from related parties of trading in nature) were as follows:

	30 June 2005 *RMB'000*	31 December 2004 *RMB'000*
0 to 30 days	**128,211**	102,083
31 to 90 days	**39,111**	23,769
91 to 180 days	**8,467**	4,882
181 days to 1 year	**4,564**	2,186
Over 1 year	**1,230**	2,009
	181,583	134,929
Less: impairment loss	**(2,762)**	(2,921)
	178,821	132,008

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The Group has recognised a loss of RMBNil (2004: RMB327,000) for the impairment of its trade receivables during the six months ended 30 June 2005. The loss has been included in general and administrative expenses in the income statement.

9. Prepayments, deposits and other receivables

	30 June 2005 RMB'000	31 December 2004 RMB'000
Deposits for purchases of raw materials	**59,337**	22,182
Staff advances and loans	**877**	854
Other receivables	**1,109**	548
VAT recoverable	**8,082**	1,069
Prepayments	**578**	2,200
Deposits	**287**	121
	70,270	26,974

10. Share capital

	Ordinary shares of HK$0.1 each Number of shares '000	HK'000
Authorised:		
At 31 December 2004 and 30 June 2005	4,000,000	400,000
Issued and fully paid:		
At 31 December 2004 and 30 June 2005	872,000	87,200

Notes:

(i) Pre-IPO Share Option Scheme

On 21 November 2004, the Company granted options to certain senior management of the Group under a Pre-IPO Share Option Scheme to subscribe for an aggregate of 4,342,000 Shares in the Company at HK$0.69 per share, exercisable over the period from 9 June 2005 to 8 June 2008. These options have remained outstanding as at 30 June 2005.

(ii) Post-IPO Share Option Scheme

Pursuant to a shareholders' resolution passed on 21 November 2004, the Company adopted a share option scheme ("the Share Option Scheme"), which will remain in force for a period of 10 years up to November 2014. Under the Share Option Scheme, the Company's Directors or a duly authorised committee thereof may, at their sole discretion, grant to any employee, director, supplier of goods or services, customer, person or entity that provides research, development or other technological support to the Group, shareholder and adviser or consultant of the Group to subscribe for shares in the Company at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the Stock Exchange on the date of the offer of grant; or (ii) the average closing price of shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; (iii) the nominal value of a share. A nominal consideration of HK$1 (equivalent of RMB1.06) is payable on acceptance of the grant of an option. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group from time to time must not in aggregate exceed 30% of the share capital of the Company in issued from time to time. At 30 June 2005, no options had been granted under the Share Option Scheme.

11. Other reserves

	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Buildings revaluation reserves RMB'000	Total RMB'000
Balance at 1 January 2004	–	56,977	23,235	–	80,212
Capital injection into subsidiaries before the Reorganisation	–	6,749	–	–	6,749
Transfer to statutory reserves	–	–	1,819	–	1,819
Surplus on revaluation of buildings					
– gross	–	–	–	111,855	111,855
– deferred tax	–	–	–	(28,626)	(28,626)
Balance at 30 June 2004	–	63,726	25,054	83,229	172,009
Reversal of revaluation reserve (net of deferred tax) and decrease in expenses in respect of land use rights	–	–	–	(52,471)	(52,471)
Balance at 30 June 2004, as restated	–	63,726	25,054	30,758	119,538
Capital injection into subsidiaries before the Reorganisation	–	98,315	–	–	98,315
Transfer to statutory reserves	–	–	12,274	–	12,274
Premium on issue of shares	194,967	–	–	–	194,967
Share issue costs	(19,583)	–	–	–	(19,583)
Surplus on revaluation of buildings					
– gross	–	–	–	4,030	4,030
– deferred tax	–	–	–	(934)	(934)
Balance at 31 December 2004	175,384	162,041	37,328	33,854	408,607
Employee share option scheme					
– value of services provided	1,935	–	–	–	1,935
Transfer to statutory reserves	–	–	2,174	–	2,174
Balance at 30 June 2005	**177,319**	**162,041**	**39,502**	**33,854**	**412,716**

12. Trade and bills payables

	30 June 2005 RMB'000	31 December 2004 RMB'000
Trade payables	**81,580**	65,535
Bills payable	**26,691**	–
	108,271	65,535

The ageing analysis of the trade and bills payables were as follows:

	30 June 2005 RMB'000	31 December 2004 RMB'000
0 to 90 days	**100,403**	62,874
91 to 180 days	**4,758**	1,055
181 days to 1 year	**2,609**	500
1 year to 2 years	**20**	890
Over 2 years	**481**	216
	108,271	65,535

13. Accruals and other payables

	30 June 2005 RMB'000	31 December 2004 RMB'000
Deposits from customers	**14,518**	8,716
Taxation payables other than EIT	**382**	3,996
Accrued wages and salaries	**12,767**	13,220
Deposits	**3,177**	1,959
Other payables	**15,450**	12,191
Accruals	**7,908**	5,792
Payables for purchase of fixed assets from liquidated state-owned companies	**8,823**	14,665
Payables to a government authority	**12,300**	2,580
	75,325	63,119

The payables to a government authority is interest free, and with no fixed payment terms.

14. Borrowings

	30 June 2005 RMB'000	31 December 2004 RMB'000
Short term bank loans		
– Unsecured	**152,400**	119,400
– Secured	**148,500**	108,532
	300,900	227,932

Bank loans are denominated in RMB and bore interest at rates ranging from 5.0% to 8.0% per annum for the period ended 30 June 2005 (31 December 2004: 5.0% to 8.0%).

Certain bank loans were secured by pledge of the Group's certain land use rights and buildings and machinery and equipment with an aggregated net book amount of approximately RMB215,566,000 as at 30 June 2005 (31 December 2004: RMB174,004,000).

The carrying amounts of short-term bank loans approximate their fair value.

The Group has the following undrawn borrowing facilities:

	As at	
	30 June 2005	31 December 2004
	RMB'000	*RMB'000*
Fixed rate		
– expiring within one year	**60,000**	60,100

The facilities expiring within one year are annual facilities subject to review at various dates during 2006.

15. Turnover, revenue and segment information

(i) Turnover and revenue

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

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Turnover		
Sales of goods (excluding value added tax)	**845,623**	588,319
Subsidy income	**3,790**	4,855
Interest income	**144**	84
Rental income – machinery and equipment	**–**	250
Total other revenue	**3,934**	5,189
Total revenue	**849,557**	593,508

(ii) Segment information

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

16. Expenses by nature

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analyzed as follows:

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Crediting –		
Amortisation of negative goodwill (included in general and administrative expenses)	**–**	629
Gain on disposal of fixed assets	**273**	290
Net exchange gains	**–**	325
Charging –		
Staff costs, including directors' emoluments	**56,925**	36,938
Raw materials and consumables used and changes in inventories	**493,374**	363,624
Operating leases rental in respect of buildings	**1,675**	338
Depreciation and amortisation expenses	**17,859**	12,786
Loss on disposal of fixed assets	**130**	1
Provision for bad and doubtful debts	**–**	327
Net exchange losses	**252**	–
Auditors' remuneration	**954**	591

17. Finance costs

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**7,701**	5,588
Other incidental borrowing costs	**478**	184
Total borrowing costs incurred	**8,179**	5,772

18. Taxation

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Current – Mainland China enterprise income tax ("EIT")	**9,694**	5,971
Deferred taxation relating to fixed assets revaluation	**(134)**	(14)
	9,560	5,957

Notes–

(i) Hong Kong profits tax

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

(ii) Mainland China enterprise income tax

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

These subsidiaries, being wholly foreign owned enterprises established in Mainland China, have obtained approvals from the relevant Mainland China Tax Bureau for their entitlement to exemption from EIT for the first two years and 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all unexpired tax losses carried forward from the previous years in accordance with the relevant tax rules and regulations applicable to foreign investment enterprises in Mainland China.

(iii) Overseas income tax

The Company was incorporated in Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands were incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income tax.

19. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**79,647**	52,738
Weighted average number of ordinary shares in issue (thousands)	**872,000**	697,600
Basic earnings per share *(RMB per share)*	**0.091**	0.076

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	For the six months ended 30 June 2005 *RMB'000*
Profit attributable to equity holders of the Company	**79,647**
Weighted average number of ordinary shares in issue (thousands)	**872,000**
Adjustments for – share options (thousands)	**1,737**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**873,737**
Diluted earnings per share *(RMB per share)*	**0.091**

20. Contingencies

	30 June 2005 ***RMB'000***	31 December 2004 *RMB'000*
Government grants obtained from the Management Committee of Taizhou Economic Develop Zone *(Note (i))*	**21,889**	21,889

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

Note:

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

21. Commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Authorised, contracted but not provided for		
Property, plant and equipment	**194,011**	–

(b) Commitment in relation to capital injections into subsidiaries

	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Taizhou Century Texhong Textile Co., Ltd	**–**	37,110
Texhong (China) Investment Co., Ltd	**243,300**	–
	243,300	37,110

(c) Operating leases

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

	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Not later than one year	**4,745**	1,217
Later than one year and not later than five years	**3,346**	2,251
	8,091	3,468

22. Related-party transactions

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

(i) The Directors and the Group's management are of the view that the following companies/individuals are related parties of the Group:

Name of related party	Relationship with the Group
Hong Tianzhu ("Mr. Hong")	Director
Hongkong Tinhong Industrial Co., Ltd.	Controlled by Mr. Hong
New Green Group Limited	Shareholder
Nantong Shuanghong Textile Co., Ltd.	Controlled by Mr. Hong
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.	Controlled by Hongkong Tinhong Industrial Co., Ltd.
Pujiang Xintian Textile Co., Ltd.	Controlled by Hong Xinbei, brother of Mr. Hong
Nantong Textile Group Co., Ltd.	Associate company of Hongkong Tinhong Industrial Co., Ltd.

(ii) Sales/purchase of goods and services

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Nantong Textile Group Co., Ltd.		
– Sales of goods	**–**	1,879
Tianhong Printing and Dyeing (Wuxi) Co., Ltd.		
– Purchase of goods	**10,714**	8,927
– Sales of goods	**9,971**	12,299
Nantong Shuanghong Textile Co., Ltd.		
– Purchase of goods	**–**	33,825
– Sales of goods	**–**	5,451
– Receipt of rental income	**–**	250
– Subcontracting fee	**–**	1,754

(iii) Key management compensation

	For the six months ended	
	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	**1,821**	249
Post-employment benefits	**3**	3
Share-based payments	**1,935**	–
	3,759	252

(iv) Period-end balances arising from sales/purchases of goods/services

	30 June 2005	30 June 2004
	RMB'000	*RMB'000*
Receivables from related parties *(Note 8)*:		
Tianhong Printing and Dyeing (Wuxi) Co., Ltd	**7,611**	4,451
Nantong Shuanghong Co., Ltd	**–**	226
	7,611	4,677
Payables to related party *(Note 12)*:		
Nantong Shuanghong Co., Ltd	**–**	282

23. Additional information

Xuzhou Texhong Times Textile Co., Ltd. ("Texhong Times"), an indirect wholly owned subsidiary of the Company, conditionally entered into a loan agreement ("Loan Agreement") on 6 June 2005 with DEG-Deutsche Investitions-UND-Entwicklungsgesellschaft MBH ("DEG") for a 7-year term loan facility of US$9,000,000 (equivalent to RMB73,008,000). The Loan Agreement has subsequently become effective after certain conditions were fulfilled on 6 July 2005. Up to the date of this report, Texhong Times has drawn down from DEG totaling US$7,500,000 (equivalent to RMB60,840,000). The term loan facility under the Loan Agreement is to be used for financing the capital expenditure of new yarn production facilities of Texhong Times, which is located at Xuzhou, Jiangsu Province and is expected to complete installation of machinery and commence trial run operations in the fourth quarter of 2005.

According to the Loan Agreement and the sponsors' support agreement dated 6 June 2005 entered into by DEG, Texhong Times, the Company, Texhong BVI and Mr. Hong, it would be an event of default if (a) any part of the principal of or interest on the loan from DEG or any other sums due under the Loan Agreement remains outstanding and unpaid; and (b) Mr. Hong fails to obtain DEG's consent prior to any sale or transfer of his shareholding interests in the Company and such sale or transfer will reduce his effective interests in Texhong Times to below 30%. DEG undertakes that it shall not withhold its consent without good reasons. If the sale or transfer of the shares of the Company will not reduce Mr. Hong effective interest in Texhong Times to less than 30%, or such sale or transfer of the shares of the Company is attempted when Mr. Hong's effective interest in Texhong Times has already been less than 30%, Mr. Hong's obligations regarding such sale or transfer are limited to a written notice thereof given to DEG within 5 days after the completion of such sale or transfer. Save as disclosed above, Mr. Hong does not have any other specific performance obligations in respect of the Loan Agreement. Upon the occurrence of an event of default, DEG shall be entitled to demand immediate repayment of the loan or any part thereof together with accrued interest and other sums due by Texhong Times under the Loan Agreement and/or to terminate the Loan Agreement promptly, which could cause significant adverse impact to the operations of Texhong Times and the Group.

As at the date of this interim report, Mr. Hong, the controlling shareholder of the Company, indirectly holds 54.5% of shareholding interests in both the Company and Texhong Times.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Following the abolition of the export quota system on 1 January 2005, exports of the PRC textile products increased significantly. According to the reports released by the General Administration of Customs of the PRC, for the period from January to May 2005, total exports of the PRC textile products and garments grew 19.1% from the corresponding period last year to USD40.8 billion, exports to the United States and the European Union surged by 70.7% and 48.7% to USD 6.758 billion and USD 6.751 billion respectively, demonstrating the competitive edges of the PRC textile enterprises and the enormous demand for PRC textile products from all over the world.

However, the sudden surge in the export sales has become a major concern to overseas textile enterprises, in particular, the United States and European textile sectors, which pressured their governments to implement special protection policies against some of the PRC textile products. A series of textile trade disputes, implementation of special protection measures, the adjustment of the tariffs on textile products by the PRC government and the re-imposition of quota system on the export of PRC textile products by the European Union spelled uncertainties for the export markets of the PRC textile enterprises. The PRC textile enterprises confronted a difficult and complicated market situation in the first half of 2005. At present, the government of the PRC and the European Union have reached an agreement on restricting the annual export growth rate of the PRC textile products to between 8.0% and 12.5%. Negotiations between the governments of the PRC and the United States on textile trade are still in progress, and hopefully an agreement can be concluded in the near future, which could eliminate some of the uncertainties facing by the PRC textile enterprises.

While the international trading environment proved unfavourable to the export of PRC textile products in the first half of 2005, demand from the PRC domestic market has grown substantially as a result of the continual economic growth of the PRC. More importantly, the persistent increase in the consumption capacity of the PRC nationals contributed to the demand for textile products of higher qualities. High value-added textile materials designed to enhance the quality and value of textile products are instrumental in satisfying the market demand for quality textile products. In addition, overseas manufacturers of branded apparel flocking to establish plants in the PRC or outsourcing production to PRC enterprises also helps spurring the market demand for high value-added upstream textile products. The burgeoning market environment has provided impetus for the upstream textile sector. For the first five months of 2005, the accumulated production of yarns and grey fabrics in the PRC reached 5,040,000 tonnes and 13.8 billion metres respectively, representing an increase of 22.8% and 20.1% respectively as compared with the corresponding period last year.

Looking ahead, trade disputes in the export markets for PRC textile products, similar to those witnessed in the first half of 2005, will continue to occur in the near future. Textile and garment enterprises with lower competitiveness will be posed with mounting challenges. Such development trend will expedite the consolidation process of the PRC textile industry and create attractive merger and acquisition opportunities for larger scaled textile manufacturers with higher competitiveness.

Business review

The Group is one of the largest cotton textile manufacturers in the PRC. It is principally engaged in the manufacture and sale of quality yarns, grey fabrics and garment fabrics, with a focus on the production of high value-added spandex stretch textile products, making it the largest spandex stretch yarn and fabric manufacturer in the PRC in terms of production volume. The Group's prominent strength, which lies in the concerted dedication of its management and staff, has not only been widely recognised by its customers and suppliers, but also ranked by China National Textile Industry Council as one of the top 20 most competitive enterprises in the PRC textile industry for the year 2004-2005 and ranked 13 in terms of sales revenue.

During the first half of 2005, market demand for the Group's high value-added textile products continued to grow, contributing to a substantial increase in sales volume, with turnover reaching a record high of RMB845,600,000, which is 43.7% over the corresponding period last year. Gross profit and net profit increased 70.5% and 51.0% respectively from the corresponding period last year to RMB148,900,000 and RMB79,600,000.

During the period under review, the Group enhanced the production efficiencies of its nine production bases located in Jiangsu Province and Zhejiang Province and attained economies of production scale. The Group, on one hand increased the manufacture and sale of spandex stretch yarns and other high value-added spandex stretch products and on the other hand implemented a centralised purchasing strategy to reduce cost of raw materials contributing to an increase of gross profit margin to 17.6% from 14.8% in the corresponding period last year. In order to establish a solid foundation for its future business expansion, the Group proactively expanded its sales team, enhanced its production capacity and strengthened its corporate governance during the period, leading to an increase of 97.7% in its operating expenses from RMB28,040,000 for the corresponding period last year to RMB55,420,000. Nevertheless, the Group managed to maintain its net profit margin at the level of 9.4%, which represented slightly increase of approximately 0.4% points over the corresponding period last year.

The spandex stretch yarn of the Group has established its market reputation. In order to cater to the increasing orders, the Group actively expanded its yarn production capacity and increased its production facilities by leasing and organic expansion during the period. The Group entered into a lease agreement in February this year, pursuant to which, the Group leased 5 plants in Xuzhou, Jiangsu Province at an annual rent of RMB3.96 million, so as to raise its yarn production capacity to 290,000 spindles. The newly added spindles commenced full operations in the end of April 2005. In addition, the Group expanded the production capacity of the production facilities of Xuzhou Texhong Yinfeng Textile Co., Ltd. by adding 12,600 spindles during the period, increasing the Group's yarn production capacity to over 300,000 spindles as at 30 June 2005. In addition, the Group acquired a piece of land in Suining County, Xuzhou at the beginning of 2005 and commenced the construction of a new plant with 100,000 spindles in March 2005. Meanwhile, machines are being purchased and it is expected that this new project will be put into operation in the fourth quarter of 2005. By then, the Group's yarn production capacity will exceed 400,000 spindles.

During the period under review, the Group's turnover was primarily generated from the sales of spandex stretch yarns and spandex stretch grey fabrics, which, in aggregate accounted for 73.2% of the total turnover, while non-stretch yarn and grey fabrics in aggregate accounted for approximately 11.6% of the total turnover. Sales contribution of garment fabrics and other textile products increased from the corresponding period last year, accounting for 15.2% of the total turnover.

Sales volume of the Group's yarn and grey fabrics amounted to 19,077 tonnes and 55.2 million metres. The Group flexibly adjusted its product mix and increased the sales proportion of its high value-added products with a view to satisfying customers' demand while increasing overall gross profit. Sales volume of high value-added spandex stretch yarn reached 16,247 tonnes, surged by 162% over the corresponding period last year. In view of the keen market demand for the Group's quality garment fabrics during the period under review, the Group deployed more weaving resources to the production of garment fabrics which recorded a sales volume increase of 142% from the corresponding period last year to approximately 9.0 million metres. In addition, the Group focused on the production of spandex stretch grey fabrics which require longer production time but command a higher added value and gross profit margin. As a result, sales volume of spandex stretch grey fabrics decreased by 11.6% to 25.82 million metres as compared to the corresponding period last year.

In order to further enhance the market competitiveness of its spandex stretch yarn and spandex stretch grey fabrics, the Group diversified the production of various types of high value-added stretch products, including carded cotton stretch yarns, combed cotton stretch yarns, polyester and rayon blended stretch yarns, rayon stretch yarns, low-drawing cotton stretch yarns, cotton stretch grey fabrics, cotton bi-stretch grey fabrics, polyester and rayon blended stretch grey fabrics. In addition, during the period under review, the Group continued to expand its product series, as well as developed and launched various types of high value-added new products with distinguished qualities, including core spun yarn with DOW XLA elastic fiber, core spun yarn and fabrics with metallic wires and core spun yarn with T400 fiber.

Due to the Group's relentless efforts in enhancing its marketing and sales capabilities, the number of customers grew by approximately 20% as compared to the corresponding period last year. The Group's domestic market now spans across 17 provinces and cities while its major overseas markets include Europe, North America, Bangladesh, Hong Kong, South Korea and Taiwan. During the reporting period, domestic and overseas sales increased by 43.0% and 51.1% respectively from the corresponding period last year and accounted for 90.1% and 9.9% of the turnover.

Outlook

The Group will continue to expand its production capacity, enhance its new product development capability, provide a wider range of product series and increase the proportion of high value-added products. In addition, the Group will continue to stay abreast of the industry development, and identify more opportunities for low-cost acquisition and organic expansion so as to expand its business scale and enhance its market position.

In order to consolidate the Group's leading position in the spandex stretch textile product industry, the Group is committed to developing more new stretch textile products with new fibers, to enhance its product value, pursuing a product diversification strategy with the view to winning customers' recognition. The Group intends to actively explore the high-end yarn and garment fabrics market and be engaged in the batch production of products including core spun yarn with DOW XLA elastic fiber, core spun yarn and fabrics with metallic wires and core spun yarn with T400 fiber in the second half of the year.

Aiming at attaining a higher economies of scale, the Group will continue to pursue a centralized purchasing strategy, which will help reducing the overall raw material purchase costs, administrative expenses and transportation and management expenses. With the formal establishment of Texhong (China) Investment Co., Ltd. ("Texhong (China)") on 21 June 2005 in Shanghai, the PRC, the Group plans to adopt a centralized sales strategy under the name of Texhong (China), which aims at concentrating sales efforts on quality customers, strengthening the Group's marketing capability, while alleviating the sales pressure and administrative burden of each production base, improving the structure of its operating expenses and enhancing the overall operation efficiency.

Looking ahead, the PRC will continue to be the Group's core market. The Group believes that the growth potential of the PRC domestic market is comparable to that of the overseas markets. The Group is recognized as one of the top 20 most competitive cotton textile manufacturers in the PRC and a leading enterprise of spandex stretch yarns. With further enhancement in the Group's market reputation and the expansion of its production capacity, the Directors believe that the Group's sales volume will continue to grow significantly in the near future.

With respect to the overseas markets, although the special auti-surge protection measures imposed by the United States and the European Union in the first half of 2005 on the PRC textile products have not materially and adversely affected the export business of the Group's garment fabrics, the Group, will not slack off, but will endeavour to eliminate the threats of quotas and tariffs by way of continuously enhancing its product competitiveness and winning market reputation of its high value-added and quality products. Leveraging on its outstanding market position to strive to obtain more export quotas. In addition, the Group will pay close attention to the global market development, and actively explore textile product markets in regions not affected by the quota systems.

Liquidity and financial information

As at 30 June 2005, the Group's bank cash and balances amounted to RMB211,688,000 (As at 31 December 2004: RMB254,359,000).

As a result of business expansion in the period under review, the Group's inventories and accounts and bills receivable increased substantially by RMB83,630,000 and RMB46,810,000 to RMB248,020,000 and RMB178,820,000 respectively (As at 31 December 2004: RMB164,390,000 and RMB132,010,000). The inventory turnover days and the trade receivable turnover days remained at around 54 days and 34 days.

To cater for the expansion of its production capacity and its business expansion, the Group's short-term bank loans as at 30 June 2005 have also increased by RMB72,970,000 to RMB300,900,000 (As at 31 December 2004: RMB227,930,000).

As at 30 June 2005, the Group's financial ratios were as follows:

	30 June 2005	31 December 2004
Current ratio	**1.45**	1.49
Debt to equity ratio	**0.46**	0.40
Net debt to equity ratio	**0.16**	0

Foreign exchange risk

Since majority of the Group's sales, purchases and bank borrowings are mainly denominated in Renminbi, in the opinion of the Board, the exposure to fluctuations in foreign currency exchange rates is minimal. As a result, the Group did not enter into any foreign exchange hedging arrangements during the reporting period.

Capital expenditure

The Group's capital expenditure for the six months ended 30 June 2005 amounted to approximately RMB58,210,000, which was mainly utilized for the acquisition of plant premises, machinery and equipment.

Pledge of assets

As at 30 June 2005, the Group's certain land use rights and buildings and equipment with an aggregated net book amount of approximately RMB215,566,000 and bank deposits of RMB68,310,000 were pledged to secure general banking facilities of the Group.

Contingent liabilities

As at 30 June 2005, the Group's contingent liabilities amounted to RMB21,900,000, which was related to the government grant offered by the Administrative Committee of Taizhou Economic Development Zone with respect to the Group's purchase of a piece of land in Taizhou, Jiangsu province, the PRC.

Human resources

As at 30 June 2005, the Group had 7,821 full-time staff (As at 31 December 2004: 6,634). New employees were recruited to cater for the Group's business expansion during the period under review. The Group offers its staff competitive remuneration schemes. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to nurturing a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual employees and team building, as the Group's success is dependent on the contributions of all functional divisions comprising of skilled and motivated staff.

Share options

A share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution of all the then shareholders of the Company passed on 21 November 2004 ("Adoption Date").

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. All directors, employees, suppliers of goods or services, customers, persons or entities that provide research, development or other technological support to the Group, shareholders of any member of the Group, advisers or consultants of the Group and 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 are eligible to participate in the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years after the Adoption Date.

The total number of shares of the Company which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 10% of the shares of the Company in issue on the Listing Date ("General Scheme Limit"). The Company may renew the General Scheme Limit with shareholders' approval provided that each such renewal may not exceed 10% of the Shares in the Company in issue as at the date of the shareholders' approval.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of Shares issued and 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-months period shall not exceed 1% of the issued share capital of the Company for the time being ("Individual Limit").

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option. A nominal consideration of HK$1 is payable on acceptance of the grant of an 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.

The subscription price for the Shares under the Share Option Scheme will be a price determined by the Directors, but shall not be less than the highest 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 the 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.

As at 30 June 2005, no option was granted under the Share Option Scheme.

Another share option scheme (the "Pre-IPO Share Option Scheme") was adopted pursuant to a written resolution of all the then shareholders of the Company passed on 21 November 2004 for the primary purpose of recognising and rewarding 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 of the Company on the Stock Exchange.

The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except that:

(i) the classes of eligible participants are different from that of the Share Option Scheme;

(ii) the General Scheme Limit, the Individual Limit and the restrictions on grant of options to a connected person do not apply;

(iii) the rules of the Pre-IPO Share Option Scheme were adopted unconditionally 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 the prospectus of the Company dated 30 November 2004, 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 at any time with a period commencing from 21 November 2004 and ending at 9:00 a.m. on the Listing Date.

As at 30 June 2005, the number of Shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme was 4,342,000, representing approximately 0.498% of the Shares of the Company in issue at that date.

Details of the outstanding share options as at 30 June 2005 which have been granted under the Pre-IPO Share Option Scheme are as follows:

		Number of option shares			
	Date of grant	**Outstanding at 1 January 2005**	**Outstanding at 30 June 2005**	**Exercise price** *HK$*	**Exercisable period** (Note)
Mr. Zhang Chuanmin	21 November 2004	1,200,000	1,200,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Mr. Sha Tao	21 November 2004	1,158,000	1,158,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Mr. Hu Zhiping	21 November 2004	1,158,000	1,158,000	0.69	three years commencing from and including the date falling six months after the Listing Date

		Number of option shares			
	Date of grant	Outstanding at 1 January 2005	Outstanding at 30 June 2005	Exercise price *HK$*	Exercisable period (Note)
Mr. Yin Jianhua	21 November 2004	826,000	826,000	0.69	three years commencing from and including the date falling six months after the Listing Date
Total		4,342,000	4,342,000		

Note: 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.

The share options granted are not recognised in the financial statements until they are exercised. The Directors consider that it is not meaningful to state the value of options granted as any valuation of the above options would be subject to a number of assumptions and variables that would be crucial for the calculation of the options' value thus rendering such value cannot be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Dividends

Taking into account the cash required for the Group's capital investment in the second half of 2005, the Board of Directors of the Group does not recommend the payment of interim dividends for the six months ended 30 June 2005. Depending on the cash position and the availability of the distributable reserve of the Group, as well as the investment, cashflow and operating capital requirement of the Group, it intends to pursue a dividend policy of distributing not less than 30% of the Group's net profit to shareholders every year.

Use of proceeds

The net proceeds from the issue of the Company's new shares in December 2004 amounted to approximately RMB194,300,000. As at 30 June 2005, a total of approximately RMB79,300,000 has been applied as follows:

– as to approximately RMB58,000,000 for the expansion of the Group's yarn production operations;

– as to approximately RMB19,400,000 for the general working capital of the Group;

– as to approximately RMB1,600,000 for enhancing the Group's product development capability;

– as to approximately RMB300,000 for the design and installation of management information system.

The remaining balance of approximately RMB115,000,000 had been placed as short-term deposits with banks in Hong Kong and the PRC, and will be applied as stated in the prospectus of the Company dated 30 November 2004 as follows;

– as to approximately RMB97,000,000 for the expansion of the Group's yarn production operations;

– as to approximately RMB500,000 for enhancing the Group's production development capability; and

– as to approximately RMB17,500,000 for the installation of a management information system.

Purchase, sale and redemption of the listed securities of the Company

During the period under review, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

Directors' and chief executives' interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporation

At 30 June 2005, the interests and short positions of each Director and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or which would 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, if any, which are taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

Ordinary shares of the Company:

	Number of shares held			
Name of directors of the Company	**Name of Group member/ associated corporation**	**Nature of interest**	**Number of shares**	**Percentage**
Mr. Hong	the Company	Interest of controlled corporation(s)	555,900,000 (L)	63.75%
Mr. Zhu Yongxiang	the Company	Interest of controlled corporation(s)	248,520,000 (L)	28.50%

Notes:

1. The letter "L" denotes the person's long position in the Shares.

2. Among these 555,900,000 shares, as to 392,400,000 shares are 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 Industrial Limited, a company 100% owned by Mr. Hong and as to 163,500,000 shares are 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. 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.

3. Among these 248,520,000 shares, as to 85,020,000 shares are 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 and as to 163,500,000 shares are 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 41.36% 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 and Trade Partner Investments Limited.

Interest discloseable under the SFO

So far as the Directors are aware, as at 30 June 2005, the interests or short position of the persons other than a Director or chief executive of the Company in the shares or underlying shares or debenture of the Company which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Ordinary shares of the Company:

	Number of shares held		
Name of the substantial shareholder	**Nature of interest**	**Number of shares**	**Percentage**
New Green Group Limited	Beneficial owner	392,400,000 (L) *(Note 2)*	45%
Trade Partner Investments Limited	Beneficial owner	163,500,000 (L) *(Note 3)*	18.75%
Wisdom Grace Investments Limited	Beneficial owner	85,020,000 (L) *(Note 4)*	9.75%
Hong Kong Tin Hong Industrial Limited	Interest of controlled corporation(s)	392,400,000 (L) *(Note 2)*	45%

	Number of shares held		
Name of the substantial shareholder	**Nature of interest**	**Number of shares**	**Percentage**
Ms. KE Luping	Interest of spouse	555,900,000 (L) *(Note 5)*	63.75%
Ms. ZHAO Ziyang	Interest of spouse	248,520,000 (L) *(Note 6)*	28.50%

Notes:

1. The letter "L" denotes the person's long position in the shares.

2. These 392,400,000 shares are 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 Industrial Limited, a company 100% beneficially owned by Mr. Hong. Under the SFO, each of Hong Kong Tin Hong Industrial Limited and Mr. Hong is deemed to be interested in all the shares held by New Green Group Limited.

3. These 163,500,000 shares are 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. These 85,020,000 shares are 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. Under the SFO, Ms. Ke Luping is taken to be interested in the same number of shares in which Mr. Hong Tianzhu are interested.

6. Ms. Zhao Ziyang is the spouse of Mr. Zhu Yongxiang. Under the SFO, Ms. Ke Luping is taken to be interested in the same number of shares in which Mr. Zhu Yongxiang are interested.

Corporate governance

Following its listing, the Company is committed to maintain a high level of corporate governance and has steered its development and protected the interests of its shareholders in an enlightened and open manner.

The Board of Directors of the Company comprises four executive Directors and three independent non-executive Directors. The Board of Directors has adopted the code provisions of the Code of Corporate Governance Practices ("Code Provisions") set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

During the reporting period, the Company had complied with the Code Provisions except for the following deviations:

Code A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Hong Tianzhu is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly every three months to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Hong and believes that his appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

Code A.4.2 (last sentence)

Code A.4.2 (last sentence) stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with article 108(A) of the articles of association of the Company ("Articles"), at every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office by rotation, provided that no Director holding office as Chairman or

Deputy Chairman under article 132 of the Articles or the office of Managing Director or Joint Managing Director under article 122 of the Articles shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire.

In order to ensure full compliance with Code A.4.2, a special resolution will be proposed to amend the relevant provisions of the Articles at the next annual general meeting of the Company to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct regarding the Directors' securities transactions on terms not less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules ("Model Code"). After specific enquiry made by the Company, all of the Directors confirmed that they had complied with the required standard set out in the Model Code and the code of conduct regarding the Directors' securities transactions during the reporting period.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi. Mr. Ting Leung Huel, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Code Provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board of Directors.

The audit committee has reviewed the unaudited financial statements of the Group for the six months ended 30 June 2005.

Remuneration committee

The remuneration committee of the Directors comprises three independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Zhu Lanfen and Mr. Cheng Longdi and the chairman and executive Director Mr. Hong Tianzhu. Mr. Ting Leung Huel, Stephen is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the Code Provisions. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board of Directors.

As at the date of this report, the Board of Directors comprises:

Executive Directors:
Mr. Hong Tianzhu *(Chairman)*
Mr. Zhu Yongxiang
Mr. Tang Daoping
Mr. Gong Zhao

Independent non-executive Directors:
Mr. Ting Leung Huel, Stephen
Ms. Zhu Lanfen
Mr. Cheng Longdi

By order of the Board
Hong Tianzhu
Chairman

Hong Kong, 18 August 2005